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## ECONOMIC PLANNING

### ECONOMIC RESPONSIBILITY SYSTEM HELPS IMPROVE SERVICE TRADE

Jinan DAZHONG RIBAO in Chinese 21 Oct 81 p 1

[Article by Yang Shiyu [2254 0013 3768]: "Insure Service Quality by Two Link-ups and Four Considerations—Finance and Trade Enterprises in Jinan Continue To Improve the System of Economic Responsibility as an Impetus to Various Tasks"]

[Text] The finance and trade departments in Jinan Municipality have carefully summed up their experiences and continued to improve the system of economic responsibility by upholding the "Two Link-ups" and "Four Considerations" as a strong impetus to various tasks.

By the end of last year, the finance and trade departments in Jinan Municipality first experimented with the system of "responsibility for profit quota and sharing above-quota profits: as a system of economic responsibility in Meicun Restaurant which has sustained losses for years. The system produced good results, and soon changed losses into profits. At the beginning of this year, the same experiment was expanded to include five other similar restaurants, also with good economic results. Then the municipal financial commission summed up the experiences in the experiments and adopted the system of economic responsibility in various forms among the food, vegetables, nonstaple food and fruit trades and some change can now be noticed among the enterprises which hitherto incurred losses or earned only meager profits. Some have turned losses into profits and others have increased their meager profits. Because of the one-sided stress on solutions to the problems of losses or meager profits at that time, and on the importance of economic indices, ideological and political work was neglected. Thus among some enterprises, the problems of reducing the varieties of commodities, selling the major portion to the peddlers [for higher profits], cheating on the weight, chiseling on the masses, a bias toward higher, but not lower prices, deteriorating quality of food, overcharging and other practices detrimental to the customers, appeared. On discovering this situation, the municipal financial commission immediately conducted its investigations and demanded the enforcement of "two link-ups" and "four considerations," meaning that the business operation should be linked up with economic results and service quality, and based on considerations of the interests of the state, the enterprise, the workers and the customers. In accordance with this demand, the enterprises once again readjusted the various indices used in their responsibility system, and treated the quality of service (including the implementation of the policies on prices and supplies, the appearance and sanitary conditions of the shops, the varieties of products and other forms of services) as an important criterion of

evaluation in the responsibility system, and the quality of service generally should account for 50 percent of the total points. To insure the enforcement of "two link-ups" and "four considerations," the enterprises generally used three different methods: first, strengthening ideological and political education so that the broad masses of cadres and workers will be further convinced of the need to serve the people wholeheartedly, and to be responsible to the people. They should also be aware that this is the guiding principle for socialist finance and trade enterprises as well as the end-result of the economic responsibility system, and that pure pursuit of economic indices without regard for production and services to the people would be a deviation from the orientation of socialist business management. Second, supervision by customers. All shops should publicly display the commodity prices, the quality, standards, sanitary requirements, disciplines for people behind the counters, and their pledges of services; and accept mass supervision. Third, there should be strengthened control and inspection and a sound system of reward and punishment, so as to insure the fulfillment of various indices required for the responsibility system.

At present, more than 400 enterprises under the municipal finance and trade sector in Jinan have adopted the system of economic responsibility in various forms. All these units have shown improvement in their attitude toward work, and their business hours have been lengthened by 1 or 2 hours. The number of mobile service carts has been more than quadrupled, and they have succeeded in increasing the incomes of the state, the enterprises and the workers besides providing greater convenience to the broad masses.

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# AGGREGATE ECONOMIC DATA

## PROVINCIAL ECONOMIC DATA GIVEN

[The following selected provincial-level aggregate economic data have been extracted from various media sources as indicated. In the table below, the gross value of industrial output is abbreviated as GVIO and the gross value of agricultural output, as GVAO.]

<u>Date; or period of comparison</u>	<u>Percentage of increase</u>	<u>Value, in yuan</u>	<u>Percentage of annual plan fulfillment</u>	<u>Source</u>
<u>Anhui</u>				
1981: Sep/Aug	GVIO: 17			21
1981:1980 Sep	GVIO: 10			30
<u>Fujian</u>				
1981: Sep/Aug	GVIO: 9.2			5
1981:1980 Sep	GVIO: 10.5			5
1981: Sep/Aug	Light industry: 8.2			5
1981:1980 Sep	Light industry: 14.6			5
1981: Sep/Aug	Heavy industry: 10.9			5
1981:1980 Sep	Heavy industry: 4.3			5
1981: Sep/Aug	Crude coal: 19.6			5
1981: Sep/Aug	Electric output: 5.3 (kwh)			5
<u>Guangdong</u>				
1981:1980 Jan-Aug	GVIO: 10.4	15.94 billion	68.5	6,12
1981:1980 Jan-Aug	Light industry: 15.7			6,12
1981:1980 Jan-Aug	Heavy industry: 1.5			6,12
1981:1980 Jan-Jul	Export: 27.1	1.26 billion (US dollars)		6,12
1981:1980 Jan-Sep	GVIO: 10.4	18.02 billion	77	8
	Light industry: 15.8			8
	Heavy industry: 1.7			8

Date; or period of comparison	Percentage of increase	Value, in yuan	Percentage of annual plan fulfillment	Source
1981: 3rd Q/2nd Q	Coal output: 8			13
1981: Jan-Sep		18.02 billion	77	14
1981:1980 Jan-Sep	GVIO: 10.4			14
1981:1980 Jan-Sep	Light industry: 15.8			14
1981:1980 Jan-Sep	Heavy industry: 1.7			14
1981:1980 Oct	GVIO: 10.2			15
1981:1980 Jan-Oct	GVIO: 10.5			15
1981: Oct/Sep	Heavy industry: 1.3			15
1981:1980 Jan-Oct	Heavy industry: 1.8			15
1981: Oct	Coal output (724,000 tons, 94,000 tons over Sep output)			15
1981:1980 Jan-Oct	Light industry: 15.9			15
1981:1980 Jan-Jul	GVIO: 10.8			41
1981:1980 Jan-Jul	Light industry: 16			41
<u>Guangxi</u>				
1981:1980 Sep	GVIO: 1.23			9
1981:1980 Sep	Light/textile industry: 13.19			9
<u>Guizhou</u>				
1981: Sep/Aug	GVIO: 15			22
<u>Henan</u>				
1981:1980 Sep	GVIO: 10			31
<u>Hubei</u>				
1981:1980 Sep	GVIO: 10			32
<u>Jiangsu</u>				
1981:1980 Jan-Sep	Industrial growth rate: 13.8			7
1981:1980 Jan-Aug	GVIO: 5.4			37
1981:1980 Jan-Aug	Heavy industry: -3.7			37
1981:1980 Jan-Aug	Textile industry: 16.4			38
1981:1980 Jan-Jun	GVIO: 5.1			39
1981: Sep/Aug	GVIO: 6.3			40
1981:1980 Sep	GVIO: 6.5			40



<u>Date; or period of comparison</u>	<u>Percentage of increase</u>	<u>Value, in yuan</u>	<u>Percentage of annual plan fulfillment</u>	<u>Source</u>
<u>Liaoning</u>				
1981: May-Sep over Jan-Apr	Average monthly out- put: 16			20
<u>Shandong</u>				
1981:1980 Jan-Aug	Light industry: 16			3
1981:1980 Jan-Sep	Light/textile industry: 15.88			4
<u>Shanghai</u>				
1981:1980 Sep	GVIO: 10.3			10
1981: Jan-Sep			75.05 (annual GVIO plan)	10
1981:1980 Oct	GVIO: 10.7 (highest this year)			11
1981:1980 Jan-Oct	GVIO: 1.8			11
1981:1980 Sep	GVIO: 5.8	5 billion, 511 million		17
1981: Sep/Aug	GVIO: 1.8			
1981:1980 Oct	GVIO: 10	5.55 billion	9.5	23
1981: Jan-Sep	GVIO: 0.9	47 billion, 676 million		23
<u>Shanxi</u>				
1981: Aug/Jul	GVIO: 4.8			18
1981: Sep/Aug	GVIO: 6.1			18, 25
1981: Sep	Textile industrial output value	100 million (historic high)		18
1981: Sep/Aug	Heavy industry: 4.65			18
1981:1980 Sep	GVIO: 3.5			25
1981: Sep/Aug	Light industry: 10			25
1981:1980 Sep	Light industry: 28.9			25
1981: Sep/Aug	Metallurgical indus- try: 5.25	100 million		25
1979:1978	GVIO: 11.6			26
1980:1979	GVIO: 21			26
1981:1980 Jan-Sep	GVIO: 10.37	795.55 million		26

<u>Date; or period of comparison</u>	<u>Percentage of increase</u>	<u>Value, in yuan</u>	<u>Percentage of annual plan fulfillment</u>	<u>Source</u>
<u>Sichuan</u>				
1981: Oct/Sep	GVIO: 1.2			24
1981:1980 Oct	GVIO: 13.4			24
1981: Aug/Jul	GVIO: 5.7			27
1981: 1-10 Sep/ 1-10 Aug	GVIO: 11.3			27
1981:1980	GVAO: 3 (forecast)			28
1981: Sep/Aug	GVIO: 8.2			29
1981:1980 Sep	GVIO: 5.7			29
<u>Tianjin</u>				
1981: Aug/Jul	GVIO: 3.9			1
1980:1979	GVIO: 10.8			36
1980:1979	Light/textile indus- try: 19.2			36
1981:1980 Jan-Sep	GVIO: 4.5			36
<u>Xinjiang</u>				
1981:1980 Sep	GVIO: 10			33
<u>Yunnan</u>				
1981: 3rd Q/2nd Q	GVIO: 8			19
1981:1980 Jan-May	Heavy industry: -0.28			19
1981:1980 Sep	GVIO: 10			34
1981:1980 Jan-Jun	GVIO: 1			42
1981:1980 Jan-Jul	GVIO: 2.28			42
1981: Aug/Jul	GVIO: 5.9			42
1981:1980 Aug	GVIO: 16.95			42
1981:1980 Jan-Aug	GVIO: 4.17	557 million		42
1981:1980 Jan-Aug	Heavy industry: -3.94			42
1981:1980 Jan-Sep	GVIO: 5.15	4.7 billion		43
1981: Sep/Aug	Light industry: 14.25			43
1981:1980 Jan-Sep	Light industry: 16.55			43
1981: Sep		GVIO: 590 million		43

<u>Date; or period of comparison</u>	<u>Percentage of increase</u>	<u>Value, in yuan</u>	<u>Percentage of annual plan fulfillment</u>	<u>Source</u>
<u>Zhejiang</u>				
1981:1980 Aug	GVI0: 11.1			2
1981:1980 Jan-Aug	GVI0: 14.5	13.97 billion	69.85	16
1981:1980 Jan-Jul	Light/textile indus- try: 22.8			16
1981:1980 Jan-Jun	Energy consumption: -1.27			16
1981:1980 Jan-Jul	Heavy industry: 2.5			16
1981:1980 Sep	GVI0: +10			35
1981:1980 Jan-Aug	GVI0: 14.5			44
1981:1980 Jan-Oct	GVI0: 13.5	17.6 billion	88	45
1981:1980 Jan-Oct	Heavy industry: 4.2			45

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## ECONOMIC MANAGEMENT

### PROBLEMS IN ADOPTING ECONOMIC RESPONSIBILITY SYSTEM IN ENTERPRISES REPORTED

Beijing CAIWU YU KUALIJI [FINANCE AND ACCOUNTING] in Chinese No 10, 20 Oct 81  
pp 12-13

[Article by Li Youde [2621 2589 1795] of Tianshui Municipal Economic Commission, Gansu Province: "Several Problems in the Adoption of Internal Economic Responsibility System Among Enterprises"]

[Text] Adoption of the internal economic system among enterprises is a powerful measure for improving economic results and an effective way to arouse the enthusiasm of the broad masses of workers and staff members through the use of economic levers. It also paves the way for democratic management through a closer integration of rights, responsibilities, and interests.

#### I. Several Forms

At present, many industrial enterprises have tried out the economic responsibility system in their own workshops, work teams and work groups, as clearly shown in the changed forms of distribution. According to a preliminary investigation conducted by Tianshui Municipality, the internal responsibility system takes the following forms:

1) Piecework wages. The enterprises using this form are generally able to pay piecework wages to the work teams, work groups, or individual workers according to the nature of the products or the production order. The amount of piecework is calculated on either an individual or a collective basis, mainly for the purpose of linking remuneration with the fruits of labor according to the principle of more pay for more work. All work teams, work groups, and individual workers will share a common economic responsibility. A rug plant, for example, pays for every square foot of rug at the second-level wage rate. This includes a certain subsidy for workers earning third- or fourth-level wages. The Brick and Tile Plant uses a collective piecework wage system whereby each work team or work group is given a fixed number of workers together with fixed production quotas, fixed tasks, fixed quality, and fixed production costs. Internal circulation coupons are used for paying expenses. These coupons are issued at the beginning of each month, according to the production plan. When a settlement of accounts takes place at the end of the month, excess expenses will have to be covered by the coupons of the following month, but 40 percent of the savings [as shown by the unused coupons] will be given to the work teams or work groups as a bonus. The system of piecework wages directly

reflects the principle of "to each according to his work," and as long as the per unit wage is reasonable, this system should produce good results.

2) Output quota and above-quota piecework wages. The main idea behind this method is that after fulfilling the output quota at the basic wage rates, above-quota production will be paid for on a piecework basis, while failure to fulfill the quota will be punished by the deduction of a certain percentage of the basic wages. This method is being used by the leather shoe plants, hat factories, and garment factories. By increasing the responsibility of the workshops, it ensures the fulfillment of output and production cost plans, besides inducing the workshops, work teams, and work groups to be more concerned with production quotas and economic accounting.

3) Wages from the sharing of above-quota profits. This means setting profit quotas for workshops on the understanding that a portion of the above-quota profits will be shared by these workshops, and that failure to fulfill the quota will be punished through certain wage deductions. This is also a means of linking wages with economic results. Cutting tool plants and light industrial machinery plants, for example, are using the workshops as accounting units with their own income, expenditures, and profit quotas. These workshops will be given bonuses according to the profit rates. In adopting this method, we must note whether the set quotas are of an advanced nature, whether the shares are reasonable, and whether there is a basis for economic accounting; otherwise control will be difficult.

4) Piecework based on joint production, collective responsibility, and flexible value for workpoints. Some enterprises such as cement factories produce a single product, with various workshops working closely in a single production line resembling "a dragon." If accounting is carried out for the workshops separately according to their production of semifinished products or the sequences of operation, each workshop may "go its own way" and create many contradictions which will make accounting difficult. Therefore, all the workshops and sections concerned are joined to form a single economic accounting unit, and the finished products of the plant are used as the criteria for the calculations. This joint production unit will be responsible for fulfilling the quotas according to the indices of production costs, quality, and consumption of raw materials and energy. This is called "joint production piecework and collective responsibility." Within the workshops, each job responsibility carries a certain number of workpoints, and the value of each workpoint is flexible. A marked improvement has been noted since the experiment began in May.

5) Wages based on income-sharing. This method is suitable for the service trades, such as clock and watch repairs, bicycle repairs, processing garments and so forth, in which labor is directly related to income. One portion of the net income earned through labor is shared by the workers, while the other portion is used for management expenses and payment of tax, or is turned in as profit for the state. The ratio for dividing the income differs in different trades. The calculation can be based on the proceeds of the retail department or on the individual earnings. According to this method, individual income will be less if business is poor; the collective may also face deficits. When business is brisk and individual income is greatly increased, the situation may get out of hand, and there may be unequal advantages in certain trades. In some trades, for example, the average individual monthly income may be 170 yuan, but some individuals may get as much as 290 yuan while others may get only 30 yuan. The difference is too great.



## II. Their Suitability

Each of the above methods has its special features and its suitability to a certain extent. Piecework wages and output quotas with above-quota piecework wages are suitable for enterprises in which the quantities of products for each work team, work group, or individual can easily be calculated according to the production order. In other words, the output and quality can easily be determined, and the various indices can easily be controlled and verified. Wages from the sharing of above-quota profits are suitable for enterprises whose workshops can independently produce certain products or earn their income by offering labor services. After setting up production targets for the workshops, these workshops will be able to carry out their own accounting without involving one another. Joint-production piecework with flexible value for workpoints is suitable for enterprises producing a single product with a production line resembling "a dragon." Finally, wages based on income-sharing are suitable for the service trades

Besides their special features, they all have one common feature because, despite their different forms, they require the same foundation characterized mainly by rational quotas, advanced management system, organized economic accounting, and basically regular production, supply, and marketing. If these methods are adopted mechanically without this foundation, the result will be the opposite, and there may be chaos in serious cases.

In adopting the system of economic responsibility, whatever form it takes, we must pay attention to its economic results and carefully handle the rational distribution of benefits to the state, the enterprise, and the workers. We must guard against overusing equipment, reducing quotas, resorting to fraudulent means, overlooking the need for good quality, and other unhealthy tendencies. We should also carefully carry out ideological work, strengthen the education of workers, and enforce a strict inspection system.

## III. Result Analysis

All these forms stress responsibility for economic results, guarantees for the completion of the plants' tasks, and the strengthening of management—all in accordance with the principle of more pay for more work and distribution according to work, instead of "eating out of the common pot." Even an initial analysis can show the following advantages:

- 1) Integration of rights, responsibilities, and interests. For the workshops, work teams, and work groups of an enterprise, rights are the means, responsibilities are the tasks, and interests are the results. When there is a good result overall, individual interests will be assured. With the adoption of the internal system of economic responsibility, rights will be provided and responsibilities will be increased. However, interests must be obtained through subjective efforts in completing tasks and fulfilling duties. This means that everyone has a share in the burden, and a close relationship between the enterprise's economic results and the individual benefits will arouse the enthusiasm of the broad masses. In the first half of this year, 34 enterprises in the municipality fulfilled more than half their annual production plans; 70 percent of these enterprises had adopted the system of economic responsibility in various forms.

2. Good economic results. Among the enterprises that have adopted the internal system of economic responsibility, there has been a general improvement of economic results. In the case of the Brick and Tile Plant, the number of its personnel was reduced by more than 100 after the collective piecework system was adopted, and yet its output value and profits exceeded the planned figures by 16 percent and 70 percent, respectively. Its profits have doubled since the adoption of the piecework wage system. The rug plant also increased its productivity by 52.5 percent and raised its profits 1.6-fold.

3. Close integration of output, production costs and profit. Since fixed expenses amount to quite a large portion of the production costs of an enterprise, efforts must be made to increase output and reduce expenses in order to attain good economic results. From the way their payroll is worked out, workers will basically understand the relationships between output, production costs, and profits and the laws of economic results. They can then make their own calculations and endeavor to fulfill their tasks.

4) The integration of state, collective, and individual interests. The system of economic responsibility has brought about a close relationship between individual income, output, and profit. Since the amount of individual income is determined by the value created by labor, the interests of all three parties should become organically integrated. A hat factory, for example, produced 207,000 hats above its production quota in 1980, and above-quota piecework wages were increased by 15 percent, and the increased portion of wages amounted to 32 percent of the increased portion of taxes. Thus the state received more revenue, the enterprise retained more profits, and the individuals made more income.

#### IV. Problems To Be Studied

The system of economic responsibility, which aptly embodies the principle of "to each according to his work," helps arouse individual enthusiasm. In some units, however, the backwardness of ideological and political work, the low level of enterprise management, and irrational quotas usually leave certain loopholes and create adverse effects.

1) When the workshops, work teams, and work groups have earned above-quota profits and individual income is raised, profits for the enterprise are as a rule not realized. The enterprise has to sell its products in order to make a profit, while the workshops, work teams, work groups, and individuals can obtain above-quota wages provided they overfulfill the output quotas and the targets of production costs and profits every month. Should there be stagnation in the circulation of goods as a result of changes in market conditions, a situation may result whereby the individuals get increased benefits while the enterprise gets no benefits or even suffers a loss. A way to solve this problem should be carefully studied.

2) Excessive use of the equipment in striving for increased output. For example, the overloading of vehicles and equipment and the disrepair of equipment in some plants have caused great concern. Therefore, it is imperative that the indices of equipment maintenance and wear and tear be included in the responsibility system. There should be meticulous inspections together with a system of rewards and punishments.

3) Need for ideological and political work to direct the workers' enthusiasm onto the right path and to guard against "looking toward money." This is an urgent problem. On hearing about the practice of an economic responsibility system, some workers of a unit may say: "Let me undertake the responsibility for trucks so that all the above-quota profits will belong to me." Workers or small collectives may try every way, even crooked ways, to increase their gains. That is why ideological and political work along with the perfecting of various systems, and particularly the strengthening of quota management, are the basic guarantees for the healthy development of the system of economic responsibility.

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## FINANCE AND BANKING

### INSTITUTIONALIZATION OF AUDITING SYSTEM PROPOSED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 8, 20 Aug 81 pp 28-29

[Article by Yao Meiyun [1202 2734 3508]: "Proposal for the Establishment of Auditing Organs"]

[Text] In the work of accounting, one of the urgent problems at present is that of supervision. Supervision over accounting can be exercised either beforehand or afterward. Auditing, based on accounting data, is a form of supervision exercised afterward over economic activities as well as revenues and expenditures. To strengthen auditing, it is necessary to set up corresponding organs. This article will attempt to present some views on the question of establishing auditing organs.

#### I. Historical Review

We have experienced setbacks in the matter of auditing. During the First Five-Year Plan, auditing was fairly highly regarded, and auditing groups (or inspection groups) were formed in many enterprises and in the financial departments of many units. These groups were especially engaged in the work of auditing, including making regular checks on vouchers, statements of accounts, and other accounting materials, and they played an important supervisory role in enforcing financial and economic regulations and discipline, in practicing economy, and in opposing extravagance, waste, corruption, and embezzlement. Departments in charge and financial and banking departments could generally audit the accounts of the basic-levels units. Therefore, the data provided by accounting was fairly realistic and complete, and the work of accounting was good and orderly.

In 1958, there was a tendency to discard auditing, and some auditing groups which had functioned effectively for many years were abolished. Three mistaken ideas then gained currency: One of them was that under the socialist system, people with a high political consciousness should willingly protect the state's financial institutions and observe financial and economic laws; that extravagance and misappropriation of state property could only be isolated cases; and, therefore, that no auditing was necessary. Another mistaken idea was that socialist accounting is better than capitalist accounting because it supplies only reliable accounting data and does not permit, nor is there any need to supply, incorrect data; therefore, there was no need for regular auditing. Still another mistaken idea was that auditing was learned from foreign countries, that it was capitalist, and that it should be repudiated, and so forth. Because of these mistaken ideas, many units abolished their auditing organs, and even the Finance and Economics College deleted "auditing"



from its curriculum. Since there was no regular auditing, people had to wait until problems piled up and then shart a checkup in the form of a violent class struggle. The accountants who were in charge of money and supplies had to bear the brunt. Because of the great risks involved, nobody was willing to work as an accountant.

The mistake of rejecting the need for audits was later pushed to extremes by Lin Biao and the "gang of four." In units where they had usurped leadership, only "service" was permitted, and there was actually no auditing to speak of. The so-called "service" was no more than a green light for these people to indulge in extravagance, waste, corruption, and embezzlement. Practice is the sole criterion for testing truth, and a host of facts have shown that it would be impossible to do without auditing. We are of the opinion that as long as feudal and capitalist concepts remain, as long as conflicts of material interest exist among people, and as long as class struggle has not finally ended, the work of auditing is indispensable in all spheres of economic life. To accelerate the four modernizations, we must greatly strengthen the work of auditing and bring it into full play.

## II. How To Strengthen the Work of Auditing

Auditing now takes three forms: 1) Auditing by accounting personnel in basic-level units; 2) auditing of affiliated units by departments in charge; and 3) auditing by financial departments, banks, and taxation departments among their affiliated units. All these forms have played a certain positive role. However, in the absence of auditing organs in basic-level units, no one is held particularly responsible for the checking of vouchers and statements of account, and the work of auditing is being carried out in a haphazard manner. Without special auditing organs and personnel, financial and banking departments similarly have difficulty conducting comprehensive audits into the accounts of basic-level units. Thus it is hard to give full play to the role of auditing. We believe that it now is necessary to restore the system of the 1950's by forming auditing groups in the basic-level units, to be staffed with adequate personnel, for audit work. Corresponding auditing sections in the departments in charge should also be set up to be responsible for auditing the accounts of their affiliated units. To strengthen the work of auditing, the departments in charge can organize their affiliated units for "mutual auditing" as a supplement for "self-auditing."

Besides setting up auditing organs in basic-level units or departments in charge, there is still another question to be considered. If the auditing organs in basic-level units or departments in charge should discover any fraud, corruption, or deception committed against the state, and know that such acts are condoned by the leadership of the units concerned or even by higher authorities, it would be a difficult problem for them to solve. Furthermore, there is also the question of who is qualified to investigate violations of financial and economic law that are committed by the provincial, municipal, or even central level. The present method is for serious cases--such as the illegal building of mansions in Luda Municipality and the violation of financial and economic laws in Zhumadian--to be dealt with by the Central Commission for Inspection of Discipline, or by people especially organized for the purpose by the departments in charge under the State Council. There is nothing wrong with such forms of action, but from a legal point of view it would be better to have permanent and authoritative auditing organs doing such work. Furthermore, because of the special positions occupied by the units at the provincial, municipal, or central levels, any mishandling may bring serious damage

to the state. Therefore, the establishment of an independent and powerful auditing organ to supervise all national economic activity is a necessity. In my opinion, a good way is to set up a state auditing bureau under the Standing Committee of the National People's Congress. As everyone knows, the NPC is the supreme organ in our country, and when it is not in session, its Standing Committee performs the NPC functions. Therefore, a state auditing bureau, established under the NPC Standing Committee, would have the authority to supervise the economic activities and accounts of all units. The state auditing bureau would be the supreme auditing organ, and provincial, municipal, and autonomous regional auditing bureaus could be set under the standing committees of the provincial, municipal, and regional people's congresses to be responsible for the work of auditing in the affiliated departments in charge and in the basic-level units.

Way back in 1954, Premier Zhou Enlai said in his Report on the Work of the Government, delivered at the First National People's Congress: "Both the National People's Congress and people's congresses at the various local levels have the right and responsibility to supervise our national revenues and expenditures. We hope the representatives of those supervising the government's work will cooperate with the government personnel concerned in opposing waste, unwieldy organizations, disregard for financial institutions, lack of concern for state property, and lack of efforts in practicing economy and increasing the accumulation of funds; and in opposing tax evasion and embezzlement of government funds." Here, Premier Zhou clearly pointed out the rights and responsibilities of the NPC for supervision, and gave us a detailed blueprint of the way to enforce this supervision. Now is the time to carry out Premier Zhou's behest.

Many foreign countries have established permanent auditing organs, such as the social accounting organ of Yugoslavia, the accounting tribunal of France, and the audit bureau of West Germany. They are all independent organs with enormous power, and their officials and workers, once assigned by the government, cannot be dismissed or transferred at will. These are favorable conditions for the work of auditing and can be used by us as reference.

There are five basic tasks for the state auditing bureau as initially envisaged:

- 1) To check vouchers, accounts, and reports and see whether they are genuine, complete, and consistent with realities, and whether there is any fraud or cheating on the government.
- 2) To check various economic transactions and see whether they correspond to the principles, policies, rules and regulations, plans, and budget stipulations of the party and the state; and to see whether there is any violation of financial and economic laws.
- 3) To check and see if there are acts of extravagance, waste, corruption, or embezzlement.
- 4) To check on the finance and accounting departments and see if they are functioning in accordance with the finance and accounting system, and to see if the accountants are performing their duties and exercising their rights properly.



5) To take action against those units and individuals that violate financial and economic laws, to the detriment of the interests of the state. Such action should be decided on after due inspection and verification.

The state auditing bureau's task is an important one, and the strengthening of accounting supervision and economic management is of great significance. Therefore, the establishment of a state auditing bureau is an urgent task.

### III. Advantages of Establishing an Auditing Bureau, and Its Relationship With Other Forms of Auditing

There are many advantages in establishing an audit bureau. Free from the control of any administrative department, it can conscientiously proceed with the performance of its duties without further worry. It will be free to act according to rules and regulations, enforce the law vigorously, and do anything that should be done without fear or worry. This will help prevent retaliatory acts against accountants who uphold principles and perform their duties faithfully. With the establishment of a permanent organ, it will be possible to carry out regular inspections of the accounting data of various units and to help accountants improve their work and raise their professional level. It will also help supply more realistic and complete accounting data. Regular auditing will keep us well informed of the way in which various units are implementing state principles and policies and observing the financial and economic laws, and will help us detect problems and solve them promptly in order to protect socialist property. At the same time, it can prevent a repetition of the old practice of mass auditing movements instead of regular inspections. This will help raise the morale of the accountants.

After a state auditing bureau is established, will auditing by basic-level units, departments in charge, and financial and banking departments still be necessary? From what has been said, the answer is definitely "yes." It is only because of the inadequacy of auditing by basic-level units, departments in charge, and financial and banking departments that the establishment of a state auditing bureau is required. Instead of replacing the other forms of auditing, the state auditing bureau's function will be to guide and assist them so that they can work more efficiently. They are all linked together, but each has his own job according to the division of work. The state auditing bureau will be responsible mainly for auditing in units at or above the provincial, municipal, and autonomous regional levels, in addition to certain basic-level units; while local departments in charge and financial and banking departments should carry out all-round auditing and be solely responsible for those accounts audited by them.

Furthermore, in order to ensure the smooth operation of the auditing bureau, the state should formulate "auditing laws" (or "laws of accounting supervision") clearly specifying the forms of organizations and the tasks, features, and methods of auditing. To meet the requirements of the auditing organs that are to be set up, the Finance and Economics College should add "auditing" to its curriculum in order to train students in auditing knowledge.

Since the establishment of an auditing bureau will be an innovation, the views here presented are still immature. I hope everyone will further study and discuss this matter and pool all resources so as to contribute to the strengthening of the work of auditing.

## FINANCE AND BANKING

### STATE-RUN ENTERPRISES INCOME DISTRIBUTION SYSTEM DISCUSSED

Beijing ZHONGGUO CAIMAO BAO in Chinese 20 Oct 81 p 3

[Article by Wang Chengyao [3769 6134 1031]: "Question of Two Forms of Payment—Taxes and Turned-in Profits--by State-run Enterprises Discussed"]

[Text] For the distribution of net profits of state-run enterprises, should both forms--taxes and turned-in profits--or only one of them be used? There have always been different views on this question. For a very long time, many comrades have held that only one of them should be sufficient. In recent years, stress was laid on the need to observe economic laws and to manage the economy through the use of economic levers and other economic means. For this reason, taxation as an important economic lever in regulating production, distribution, circulation and consumption, is now receiving increasing attention. To give full play to the role of taxation as an economic lever, the question of whether taxes should be used as the only form of payment in the manner of "changing profits [to be turned-in] into taxes" or "substituting taxes for profits: and whether both taxes and profits should be used for the same purpose has become the focus of attention in restructuring the system of income distribution among state-run enterprises. Recently, the China Finance Academy and the departments concerned jointly held a meeting to study the reform of the taxation system and the financial system of enterprises, and a special discussion was conducted on this question.

The comrades attending the meeting generally held that in view of the present economic situation, the use of both taxes and turned-in profits by state-run enterprises should be continued for some time as a means of state revenues. Yet these comrades stressed different factors in support of their views. Some of them stressed the important role of turned-in profits and profit retention as economic levers, and held that at any time, the use of taxes and turned-in profits should be well coordinated.. Others stressed "substitution of taxes for profits, independent accounting, and responsibility for profits and losses" as an important reform in the distribution of the incomes of state-run enterprises; and held that since conditions are not yet ready for all-out efforts to be made in this direction, we can only conduct experiments in small state-run enterprises and a small number of large or medium-size enterprises, and then gradually popularize the method after gaining experience.

As an orientation of restructuring in the system of distributing enterprise incomes from a long-range view, should we use taxes as the only form of distribution or continue to use both taxes and turned-in profits? There were three different points of view on this question during the discussion.

First, let us look at taxes as the only form of distribution. It was held that "substituting taxes for turned-in profits" or "changing profits into taxes" (including charges for the possession and use of state funds) was far superior to profit-sharing, and should be the orientation of restructuring, for the following reasons: (1) In view of the complex social economic conditions, there should be adjustments in various aspects, including the vertical adjustments in the national economy (meaning the adjustments within the system of ownership by the whole people) and the horizontal adjustments (meaning the adjustments among different departments, enterprises and various products). Only thus can there be a rational economic structure, a rational product mix and a rational pattern of organization for the enterprises; only thus can the relationship of interests among the state, the enterprise and the workers be properly handled. Through taxation in various forms and repeated adjustments and modifications, it will be possible to adapt measures to the complex economic conditions in various aspects; to provide guidance in production and consumption; and properly to streamline various relationships. Profit, however, is a comprehensive economic index, and the turning in and retention of profits as a single form cannot solve the problem of complex economic activities. (2) To arouse the enthusiasm of state-run enterprises, it is necessary to provide the enterprises with certain decision-making power along with the guidance of state planning and state leadership, so that the enterprises can within certain limits assume responsibility for profits and losses; and so that their rights, responsibilities and interests can be closely integrated. If the way of distributing incomes is established through taxation and tax legislation, it will help serve this purpose by carrying out effectively the two "three-in-one combinations," namely, the combination of the interests of the state, the enterprise and the workers, and the combination of the enterprise's rights, responsibilities and interests. The use of taxation as a means of adjustment will not only solve the problem of unequal advantages caused by objective factors among different enterprises, but also preserve rational interest differentials among the enterprises. The method of profit-sharing cannot be free from departmental and regional restrictions. Furthermore, there must be profits before any sharing is possible. If there are no profits to be shared and the state has to subsidize the loss, then close coordination among rights, responsibilities and interests will be impossible. (3) If taxes are levied according to law and the amounts to be levied are calculated at given rates, there will be a distinct relationship between the state and the enterprise in the distribution of income, and the adjustment of rights and interests will be protected by law. This will insure timely, steady and reliable state revenues. (4) If taxes are levied in various forms along with various adjustments, the effects of taxation can be felt in production and marketing activities, in cost accounting, in the distribution and use of profits and other aspects of the enterprise's operation. Therefore, compared with profit-sharing, this can play a more effective supervisory role. (5) We have not yet seen enough of the experiment of "substituting taxes for profits" or "changing profits into taxes." However, as long as we proceed with the restructuring by breaking down the old conventions, the problems can be basically solved.

Second, a look at the use of both taxes and profit-sharing. It was held that since, from the long-range view, turning in profits and paying taxes play basically equal roles in state revenue, profits cannot be replaced by taxes for the following reasons: (1) Profits belong to the owner of the means of production, and the state is the owner of the means of production in the state-run enterprises. Abolition of



the profits to be turned in will actually mean that the state has abandoned its rights of ownership of the means of production in state-run enterprises. (2) State-run enterprises are built on the foundation of the system of socialist public ownership, and stand for planned commodity economy; and the issuance of funds, the layout and orientation of production, the product mix, the material structure, labor management and so forth are mostly regulated by state planning. The responsibility for profits and losses resulting from labor consumption—either higher or lower than average socially necessary labor time—should not be entirely borne by the enterprise. Some enterprises are only making meager profits or even suffering losses because of certain government restrictions or objective factors; in this case, the loss should be borne by the state and the enterprise should no longer assume responsibility for its own profits and losses. Therefore, the method of "substituting taxes for profits and assuming responsibility for profits and losses" is not entirely appropriate. (3) In levying income tax, the tax rates should be established so that higher taxes will be levied on higher profits; lower taxes for lower profits; and no tax for loss. This method lacks flexibility. On the other hand, profit-sharing can be based on changing conditions and adapted to the enterprise's plan for readjustment. Thus it can help regulate the enterprise's retained profits and induce those enterprises incurring losses to reduce their losses and thus share the savings. This method is more flexible in handling various relationships. (4) The levy of income tax is based on the profits realized by the enterprise regardless of the actual conditions for fulfilling various planned quotas. Profit-sharing, however, is closely related to these conditions. An enterprise can share the profits only when it has fulfilled the various planned quotas, and the size of its share is not determined by any single quota of profit. Therefore, profit-sharing is an important lever serving to encourage state-run enterprises to fulfill all the planned quotas and to insure the realization of planned economy. (5) As long as the present method of profit-sharing is improved—by such methods as the replacement of basic-level enterprises by trades or companies, as units for profit-sharing and profit-retention, so that these trades and companies can work out suitable overall arrangements for profit-retention by their affiliated basic-level enterprises—the present problems of duplicated construction projects and unequal advantages among the enterprises will be solved. (6) In view of the present difficulties for drastic price changes and before the tax rate for products is readjusted, it is impossible to adopt the system of progressive taxation. The method of "changing profits into taxes" is thus essentially a form of profit-sharing without much newly added substance or any special significance.

Third, taxation as the main form of distribution is to be supplemented under certain conditions by profit-sharing. It was held that the ratio of taxes in state revenues should be raised a great deal, say, as high as about 80 percent. Under ordinary conditions, only taxation will play the regulative role; but under certain extraordinary conditions, profit-sharing should still be used and there should be no "arbitrary uniformity." Apart from the five reasons for the use of taxation as the form of distribution, according to the first point of view, there are the following three supplementary reasons: (1) Because of the complex economic conditions and the numerous differences in the levels of technology, material resources, and equipment in different enterprises; the deviation of prices from value over a long period of time; and many other reasons, differences in the profit levels of different enterprises are inevitable. Therefore, taxation can play its regulative role under only ordinary, and not all, conditions. Under a unified taxation system, there are

always some enterprises whose after-tax profits are more than what they actually need; and it is impossible to work out a tax rate for each enterprise for the purpose of absorbing their excess profits. (2) Taxation and profit-sharing are both economic levers but playing different roles. Since we advocate the full use of all kinds of economic levers, we cannot discard profit-sharing which is still effective as an economic lever and is readily available. In the past, there were requests for "substituting profits for taxes" and the "combination of taxes and profits"; now there is the request for the complete substitution of taxes for profits and the abolition of profit-sharing. The view that taxes and profits are two irreconcilable forms of payment is not a scientific one. (3) The regulatory income tax, as an important aspect of "substituting taxes for profits" can only exist as a temporary expedient in the experiment of restructuring during the re-adjustment of the national economy, but should not be adopted as a permanent measure. Since its source is not clear, and in the absence of any clear indication of its nature as either tax or profit, the regulatory income tax lacks a theoretical basis; and in levying this tax, it is very difficult to determine the subjective or objective causes of higher profits. Therefore, it offers no encouragement to the advanced units. Furthermore, because of the different levels of profits among the enterprises, it will be difficult to introduce a unified legislation.

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## FINANCE AND BANKING

### SHANGHAI'S CONSTRUCTION BANK INVESTMENTS PRODUCE GOOD RESULTS

Shanghai WENHUI BAO in Chinese 27 Oct 81 p 1

[Article by correspondents Shen Jiqing [3088 0679 1987]: "Every Yuan of Bank Loan Helped Produce 3 Yuan Profit for Industrial Plants--Shanghai's Construction Bank Stresses Economic Results in Handling Finance"]

[Text] In 1 year, the investment of each yuan has brought 3.6 yuan of tax or profits for the state. Such has been the result of investment by Shanghai's construction bank in 25 medium-size projects.

These 25 projects were mostly related to equipment renovation and technical transformation in the light, textile and chemical industrial sectors. The average investment in each project was less than 500,000 yuan, and the smallest one cost only a few tens of thousands of yuan. Before granting the loans, the bank conducted intensive feasibility studies and paid attention to the role of the productive capacity in filling certain gaps and in comprehensive utilization. Therefore, these projects required fairly short construction periods--generally 10 months--and yielded remarkable economic results. Each year, they are able to increase state taxes and profits by 38 million yuan and earn 6.64 million yuan in foreign exchange. The total profits were 3.06 times the amount of bank loans.

The Shanghai Flour Mill is an old enterprise, using out-dated equipment with low efficiency. In the past several years, the flour processing task of this mill became increasingly heavy, and equipment replacement was necessary for raising its productivity. Before granting a loan, the municipal construction bank conducted many feasibility studies in collaboration with the financial departments and found no need for the additional mills to be built with indigenous methods, since such equipment could be bought and the technical force was available. The bank quickly approved a loan of 600,000 yuan for this mill, and this amount, together with an allocation by the bureau in charge, enabled the mill to replace 37 mills. This project began last May and was ready for operation by August. The productive capacity was doubled and the annual profits increased by more than 2 million yuan.

The dacron cord produced by the China Feilun Cord Factory is selling well at home and abroad. Last year, this factory wanted to renovate a dryer in order to increase its drying capacity in the production line. However, the cone winder was not fast enough for the dryer which had acquired increased drying strength,



and the productive capacity could not be balanced. In view of this, the municipal construction bank granted a loan of 48,000 yuan for the factory to buy 8 additional sets of cone winders to even up the productive capacity. By this means, the factory increased the output of cord by 6,500 dozen spools each month; increased its profits by 936,000 yuan each year; and earned \$480,000 in foreign exchange. The loan was totally redeemed in 1 month.

The municipal construction bank is keenly interested in comprehensive utilization. In the past, the residual gas from the sulphuric acid workshop of Wujing Chemical-Industrial Plant was recovered to be made into liquid ammonium sulphate to be used as fertilizers. Sales of this type of fertilizer were poor in recent years because of its low efficiency. Besides incurring a loss of 600,000 yuan each year, the plant also created serious problems of pollution. Last March, the municipal construction bank conducted investigations and then loaned this plant 280,000 yuan for technical transformation. The residual gas was then made into ammonium bisulfite to be used by the Shanghai Sulphuric Acid Plant. Because the work was carried out according to plan, the project was completed for operation in 2 months, and the loss was turned into profit. The loan was repaid, and with interest, in 5 months. The Wujing Chemical-Industrial Plant now can increase its profits by 360,000 yuan each year, and the Shanghai Sulphuric Acid Plant also can increase its output value by 1.35 million yuan each year.

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## INDUSTRY

### 'JINGJI GUANLI' ON ZHEJIANG INDUSTRIAL GROWTH

HK190612 Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 11, 15 Nov 81  
pp 3-6

[Article by Jin Ji [6855 4764] and Tong Tai [4547 3141]: "How Did Zhejiang Province Maintain a Fixed Industrial Growth Rate During Readjustment?"—passages within slantlines denote boldface]

[Text] Since the implementation of the policy of readjusting the national economy, our province's industry has continued to grow. The total industrial output value of the province in 1979 was 17.9 percent more than that in the previous year, that in 1980 was 27.5 higher than in the preceding year and that in the January-August period this year saw an increase of 14.5 percent over the same period last year.

#### The Major Characteristics of Industrial Development Over the Past 3 Years

1. Top priority has been given to light industry and heavy industry has also grown to some extent.

The output value of the province's light industry constituted 60 percent of the total value of all industrial output of the province during the readjustment period. The total value of light industrial output in 1979 increased by 17.1 percent over the previous year, that in 1980 was 30.4 percent more than that of the preceding year and that in the January-August period this year was 21.2 percent higher than in the corresponding period last year. Heavy industry has also grown to some extent during the period of readjustment. The total value of heavy industrial output in 1979 increased by 19.1 percent over the previous year, that in 1980 was 30.4 percent more than that of the preceding year and that in the January-August period this year was 4.5 percent higher than in the corresponding period last year. The development of light and heavy industries has been coordinated and the industrial structure has become increasingly rational.

2. The industry under the system of collective ownership has developed at a relatively fast pace.

The output value of industry under the system of collective ownership (including the enterprises run by the Provincial Second Light Industrial Department, the neighborhoods of towns and communes) accounts for 40 percent of the total industrial output value of the whole province. During the period of readjustment, the speed

of development in collective industry continues to increase. The total output value of collective industry in 1979 was 19.9 percent more than that of the previous year. The collective industry of small cities and towns increased by 17.6 percent and collective industry run by communes saw an increase of 26.3 percent. The total output value of collective industry in 1980 was 39.3 percent more than that of the preceding year. The collective industry of the small cities and towns increased by 34.5 percent and collective industry run by communes saw an increase of 51.8 percent. The total output value of collective industry in the January-August period this year was 25.5 percent higher than in the same period last year. The collective industry of the small cities and towns increased by 17.6 percent and collective industry run by communes saw an increase of 46 percent.

### 3. The economic effect has been raised to some extent.

Over the past 3 years the technical and economic targets of industrial production have been fulfilled in a relatively satisfactory way, and marked achievements have been made in economizing on energy. The overall consumption of energy for every 10,000 yuan's worth of output value in 1980 was 57,300 tons [as published], a decrease of 8 percent compared with that in 1979. The industrial production in the January-August period this year continued to rise and the amount of energy consumed throughout the province has by and large not increased. The profit achieved in 1979 by those industrial enterprises under the system of ownership by the whole people, which practiced independent business accounting increased by 20 percent over the previous year. That in 1980 showed a 24.5 increase over the preceding year and that in the January-August period this year was 1.5 percent more than that in the corresponding period last year, calculated according to comparable prices in that year.

### During the Readjustment Period, Accelerate the Development of Industry

The reasons we could maintain a certain speed of development in the province's industry were mainly that the CCP Provincial Committee and people's government strengthened leadership over the economic work; proceeded from the reality of the province; defined the policies for developing industry; had a relatively firm hold of economic organizational work; adjusted and coordinated the work of various departments; readjusted and rectified the leading bodies of a great number of key enterprises; adopted a series of policies and measures advantageous to the development of industrial production within the limits permitted by the relevant state regulations to revitalize the economy and began to reform the industrial structure and product mix. Concrete examples are listed below:

1. In accordance with the "provincial condition," change the guidelines for industrial development and bring into play the strong points of light and textile industries.

In 1978 the leadership of the CCP Provincial Committee and people's government put forward the matter of it being imperative to earnestly sum up the experiences and lessons of economic construction and pay attention to giving full scope to the economic strong points of the province. It was regarded at that time that Zhejiang Province's economic strong points were the diversified rural economy and light,

textile and silk industries and its weak points were serious shortages of coal and iron deposits and it was stressed that it was necessary to develop advantages and make the best use of advantages to overcome shortcomings. After the 3d plenary session of the 11th CCP Central Committee, in the process of studying economic readjustment and long-term planning, we further summed up the experiences and lessons of the province's economic construction and analyzed the "provincial condition" of Zhejiang Province. On this basis we hold that the main economic characteristics of the province are shown by the fact that the province has always been called "a land of fish and rice, home of silk, a place with advantageous resources of mountains and seas (there is enormous potential in mountain areas and fishing zones), a land of tourism and a place of cultural relics (the former scientific and technological as well as education foundation was relatively sound)." Other major characteristics are that agriculture and light industry occupy a large proportion in the national economy of the province; the output value of heavy industry constitutes 27 percent in the total value of agricultural and industrial output and most of the products of heavy industry serve agriculture and light industry; medium and small-scale factories are numerous among the industrial enterprises, the collectively-run enterprises form a large proportion of all enterprises and labor-intensive enterprises form the main part of these; in circulation, most of the agricultural and sideline products and light and textile industrial products (which use agricultural and sideline products as raw materials) are for export and allocation to other provinces and we depend on importing most of the fuel and much of the raw materials for heavy industry and the chemical industry from other provinces. We have come to see that one of the important problems in our past industrial production was that we marked time by building an independent industrial system and adopting the principle of "taking steel as the key link," spent large quantities of financial and material resources to obstinately remedy weaknesses, preserved disadvantages by discarding advantages and squeezed out agriculture and light industry, thus affecting the growth rate of the national economy. Through analyzing the "provincial condition" and summing up experience in this way, we have realized that we must no longer waver in regard to the relationship between heavy industry, agriculture and light industry and still less can we disregard the expenses in solving the problem of "goods whose supply has fallen short of demand" because of the lack of resources. We have clearly understood that it is necessary to put light and textile industries in a priority position, go all out to develop a diversified economy in agriculture, provide light and textile industries with raw materials and at the same time, in the light of the raw material needs of the industrial branches which support agriculture and light industry and the availability of resources, actively develop heavy and chemical industries.

/2. Open up new resources of raw materials, strengthen technical transformation, change the product mix and speed up the development of the production of consumer goods./

The province has taken the following measures for giving priority to the production of consumer goods and promoting the rationalization of industrial structure:

First, we have vigorously developed a diversified economy in agriculture and readjusted the policy for purchasing the agricultural and sideline products so as to provide light and textile industries with more raw materials. Seventy-three



percent of the province's light and textile industries use agricultural products as raw materials. In order to boost production of raw materials for light and textile industries, with the precondition of ensuring an increase in food production, we have readjusted the areas sown with grain crops and industrial crops. Over the past 3 years, the province has gained an additional 250,000 mu of cotton-growing areas; 20,000 mu of areas sown with *luo ma* [4820 7802] and 68,000 mu of areas sown with oranges and tangerines. To enthusiastically support the economic development of the mountain areas, we have, in succession, increased the sales to, and reduced the purchase quotas of 270 million jin of grain from the mountain areas, reduced or waived 200 million jin in agricultural tax and supported the mountain areas in stopping the opening up of wasteland and returning the reclaimed land to forestry, carrying out afforestation and raising trees, and developed such special local mountain products as tea, Chinese tallow tree, tung oil and rosin. At the same time, linking up with the communes and their subdivisions, the industrial branches of the Provincial Light Industrial Department and enterprises have established a large number of sources of raw materials. A total sum of 10 million yuan was allocated from the provincial reserve fund as loans for the source areas of raw materials to use as working funds. In order to arouse the enthusiasm of the peasants for increasing the production of raw materials for light industry, the province worked out the base price for 13 items of agricultural and sideline products one after another, guaranteed the required quotas, purchased the surplus above the purchase quotas at a higher price or appropriately shared the earnings from the excess production. This has both increased the supply of raw materials for state-run industry and appropriately developed commune and brigade-run industry.

Second, uphold the implementation of the principle of the "six priorities," strive to guarantee the supply of coal, electricity, oil and industrial raw and semi-processed materials which are needed to carry out light and textile industrial production. In terms of distribution of energy, top priority has been given to light and textile industries. Last year the province exchanged 100 million jin of rice and 10 million jin of rapeseed oil with Shanxi Province for 1 million tons of coal, thus making good the shortage of fuel. Of this 100,000 tons were directly utilized and sent to the key light and textile industrial factories by the Provincial First Light Industrial Department. This year we will continue the cooperation with Shanxi Province and import more than 1 million tons of coal to strongly support light and textile industrial production. We curtailed the consumption of the "coal tigers" and "electricity tigers" [enterprises which consume large amounts of energy] in order to save more raw coal and electricity to support light and textile industries and thus to boost production. Several years ago, the light and textile industrial products which had their production disrupted due to the lack of raw and semi-processed materials accounted for 1/3 of the total light and textile industrial products of the province. In the last 2 years, we have enthusiastically worked at the processing of imported and locally supplied materials, thus increasing production tasks. For instance, we annually produced about 50,000 pieces of cotton yarn by processing the imported and locally supplied materials, and this constituted more than 10 percent of the cotton yarn output of the province. We cooperated economically with different provinces and exchanged some goods in great demand which were produced in excess of the output quotas, such as bicycles, sewing machines, cigarette paper and silk quilt covers for light and textile industrial raw materials, such as timber, chemical fibers, rosin, tobacco, soda ash and so forth. We still imported raw materials from abroad for light and textile industries, paying for these with various foreign currency funds.

Third, use funds obtained through various channels to strengthen the technical transformation of light and textile industries and expand production capability in order to produce goods which are in short supply. To expedite the development of light and textile industries, over the last 3 years, we have readjusted the orientation of investment. The ratio of investment poured into light and textile industries to the investment in local capital construction increased from 8.8 percent in 1978 to 15 percent in 1980 and will be 19.1 percent according to this year's plans. At the same time, through various financial channels, we strengthened the technical transformation of existing enterprises and adopted the method of using every means available to center various funds in a certain direction for a period of time and strengthened the weak links in production capability. From 1979 to 1981, the various construction funds used by the provincial first and second light industrial departments and their affiliated organizations totalled 580 million yuan, of which the tapping-renovating-transforming funds and special bank loans accounted for 60 percent. We allocated 70 million yuan from the province's reserve fund to be used as construction loans to light and textile industries which would use them as working funds.

Fourth, vigorously grasp quality, increase product varieties and change the product mix. In the past 3 years, while adhering to the principle of quality coming first and maintaining the strong points of traditional products, we have actively developed new products, new varieties in product design, size and color and in packaging, and have reformed the product mix, raised the precision and depth [shen du 3234 1653] of processing made every effort to achieve a greater economic result while consuming the same amount of raw and semiprocessed materials. According to the calculations of the Provincial First Light Industrial Department, in the total output value of the Provincial Light Industrial Department and its affiliated organizations in 1980, the increase in amount of the output value attributable to changing the product mix and economizing on raw and semiprocessed materials constituted over 1/3 and the increased profit attributable to raising product quality and changing the product mix was 42.3 percent of the total profit increase for the year.

/3. Strengthen market sense, change the product orientation, improve technical service, revitalize heavy industry and strive to maintain a certain growth rate in heavy industry./

During the industrial readjustment, do we simply go all out to promote light industry and discontinue heavy industry? Having made a serious analysis of the situation in which the province's heavy industry has a weak foundation and a relatively great proportion of it serves agriculture, light industry and the market, we maintain that it is necessary to put an end to the former state of affairs in which the speed of development in light industry was excessively low compared with that of heavy industry and it is also necessary to allow heavy industry to maintain a certain growth rate and develop in coordination with light industry.

Over the past 3 years, to maintain a certain speed of development in heavy industry during the period of readjustment, we have done work in the following areas: First, adapting ourselves to the social needs and in accordance with market conditions, we switched in good time to produce other products, thus taking from the long to add to the short. The production targets for capital construction equipment



were reduced but this was compensated for by increasing production of the products to be used in the renewal, transformation, forming of complete sets and maintenance of equipment. Second, the enterprises which formerly served agriculture, light industry and the market tried their best to improve their technical service, further open up new markets and increase production. Third, enterprises which produced goods which were in abundant supply, decided on, and produced products which were in short supply and while maintaining production of one major product, produced others as supplementary ones. While grasping well the production of the main products, they practiced comprehensive management, thus boosting production and increasing income. Take the major heavy industrial branches, such as metallurgical, engineering and chemical industries for example:

**The metallurgical industry:** It formerly had insufficient production capability and its products were mainly small products. During the readjustment period, in the light of market demands, it enthusiastically increased production. The Hangzhou steelworks has doubled its output of small steel products and wire rods in the last 2 years. In specified steel products, it increased the production of leaded steel of types 10, 14, 22 and 25 which were needed in the building industry in the small cities and towns and trial-produced new products, such as a new type of steel which resists corrosion by seawater. Its wire workshop produced newly added umbrella frame wire, spring steel wire and bicycle spoke wire.

**The engineering industry:** We changed its service orientation and grasped both the production of marketable light products and key enterprises and products. The First Department of Machine-Building and its affiliated organizations stressed the grasping of the production of 38 marketable brand-name products of 48 enterprises and particularly the following four big factories: the Hangzhou oxygen production machinery factory, the heavy-duty machine tool factory, the steam turbine factory and the boiler factory. Of the total output of the Provincial First Department of Machine-Building and its affiliated organizations, the output value of these four factories constituted around 12 percent and accounted for about 20 percent of the department's total profit. During the period of readjustment, these four factories encountered a serious situation in which they were being operated below capacity, their equipment was left idle and there were holdups in the work because of poor management of their workers. During the readjustment period, the production targets of the Hangzhou oxygen production machinery factory were sharply reduced. At the beginning of 1980, only 30 million yuan of planned targets were fixed, a decrease of over 1/3 compared with those in the past. At the beginning of this year, it had only 13 million yuan of planned targets and the units which had formerly placed order for goods one after another returned the goods they had received. Under these circumstances, this factory discarded its haughty airs of being a big factory and put an end to the old practice of waiting for customers to come to the door-step, organized leading core cadres and technical personnel to go to more than 10 provinces and municipalities to interview the customers and conduct on-the-spot investigations of the large-sized oxygen production machinery which their factory had produced in the past, and signed a number of contracts with the customers for overhauling and remaking the machines. At the same time, it made good use of the idle equipment and personnel to provide the light industrial trades and professions with compressors of various specifications and other equipment, contracted out quite a number of production targets and thus maintained the historically relatively good levels in production and profits.

The chemical industry: Most of the province's major industrial products, such as chemical fertilizers, acid and soda, plastics, paint and rubber products were needed by the market but the supply of raw and semi-processed materials and fuel were strained. We increased production mainly by practicing economy. For instance, the output of synthetic ammonia in 1978 was 390,000 tons and 580,000 tons in 1980, and in the January-August period this year, 400,000 tons of synthetic ammonia has been produced, of which the output of small synthetic ammonia factories accounted for 75 percent. The consumption of anthracite and soft coal by these small synthetic ammonia factories decreased by 1,708 jin in the first half of this year, a decline of 22.1 percent compared with 1978.

/4. Bring the supplementary role of regulation by market mechanism into play under the guidance of state planning./

Under the guidance of state planning, one important condition of the continued growth of the province's industry over the past 3 years was that we paid attention to giving play to the supplementary role of regulation by market mechanism. Over the past 3 years, the major measures we have taken to bring the supplementary role of regulation by market mechanism into play are as follows: First, we vigorously organized coordination of materials. For this purpose, the province set up a cooperating leading group and cooperating office of which a vice-governor was in charge, transferred a number of cadres to strengthen this work. Various localities also generally strengthened the work of the coordination of materials and at the same time, they increased the sources of raw and semiprocessed materials by relying on the strength of various departments and enterprises and by readjusting deficiencies and surpluses of raw materials in the production materials market. Second, we carried out the processing of locally supplied and imported materials or let the enterprises contract out production tasks on their own accord and "look for new sources of materials to feed their machines." Third, we strengthened marketing work, adjusted ourselves to the needs of the market and promoted production through marketing. A lot of companies and factories and mines set up their own individual marketing sections and enhanced their ability to promote sales of their goods. At the same time, to allow the normal regulation by market mechanism and to meet the requirement of enlivening the economy, we appropriately relaxed policies and made some necessary changes within the scope permitted by the state policies on prices, taxes and market management.

We grasped circulation and promoted production. To do a good job of marketing, we organized the supply and marketing organs at the provincial, prefectural and county levels into an interconnected network of supply and marketing, keeping all organs informed and integrating purchase with marketing. Haining County established cooperative relations with 219 units from 20 provinces and municipalities and as a result, the raw materials needed for production in the 28 cooperative factories all over the county this year were by and large arranged and their products have found a market.

In order to bring into play the supplementary role of regulation by market mechanism and promote production, we made some necessary changes in the economic policies. The province practiced, with a little flexibility, the principle of "being lively within stability" in regard to price for the means of production used in carrying out the cooperative activities. Some flexible measures for the prices of the

products of the commune and brigade-run enterprises and some collectively run enterprises were also stipulated. For instance, for the major products which are subject to unified purchase and marketing by the state and are produced by self-supplied materials appropriate price rises of up to 10 percent are allowed. For the products which are not subject to unified purchase and marketing by the state and products processed from materials supplied from outside, negotiated prices are also allowed.

/5. Appropriately expand production capability and raise the levels of production and technology through the technical transformation, expansion and reconstruction of existing enterprises./

In capital construction, owing to the curtailment of investment and the readjustment of its structure, the proportion of investment in industry in the total amount of local investment decreased from about 60 percent in the past to below 30 percent. With limited investment, we were resolved to discontinue the projects which required heavy investment and yielded poor results and whose techniques were not up to standard, readjust the orientation of investment and put the stress on the continuation, forming complete sets of, expansion and transformation of the existing enterprises which required less investment and promised quicker results. At the same time, we granted loans to the projects which had the ability to repay, thus raising the investment results. For instance, we arranged loans this year for 38 capital construction projects of which 20 were anticipated to be completed and put into production this year. In addition, the construction bank arranged credits for 129 small-scale projects of which half were expected to be completed and put into production this year. The economic effect of these projects is relatively good.

The projects which used tapping-renovating-transforming funds, including some projects of a capital construction nature which are to be expanded and restructured, have enhanced the production capability for goods whose supply falls short of demand. The funds for tapping-renovating-transforming throughout the province were 10 or 20 million yuan annually before 1978 but they reached more than 200 million yuan annually both in 1980 and 1981 after the practice of assigning the local financial authorities responsibility for task completion was introduced, the experiments of expanding decision-making power of enterprises was carried out and the method of banks granting special loans was practiced. Three hundred and seventy technical-measure projects were completed and put into production last year and 109 projects were completed and put into production in the first half of this year. The newly added industrial output value created by these projects which used the tapping-renovating-transforming funds was more than 700 million yuan in 1980 and is estimated to reach 800 million yuan this year, constituting about 1/3 of the amount added to the total output value of the province this year.

Apart from the budgeted financial allocation and various bank loans, to raise funds, the province set up a capital construction investment company. One hundred million yuan of funds were raised from the province's reserve fund to be used as loans for capital construction projects which would use them as working funds. The province also set up a provincial cooperative investment company and 46 companies of that kind at municipal and county levels in Hangzhou, Shaoxing,



Huzhou, Quzhou and so on. The Hangzhou Investment Company extended 24.17 million yuan of credit in the January-June period this year to support 101 tapping-renovating-transforming projects of which 58 were light and textile projects.

/6. Industrial departments have begun to pay attention to the popularization and application of science and technology in production and strengthened the training of the technical force and factory-run scientific research has begun to develop to some extent./

Along with the initial reform of the economic structure and the step-by-step expansion of decision-making power of enterprises in production management, the socialist competition is being carried out within certain limits and the industrial departments and enterprises have begun to attach importance to raising the level of production techniques and the ability of their products to compete. This has promoted the transfer of knowhow; the factory-schools combined manufacturing and technical cooperation between different factories, thus enabling science and technology to become actual productive forces as quickly as possible. For instance, the Shaoxing porcelain factory has achieved 20 findings, such as economizing on energy by mixing coal and oil and the making of clothes hooks by direct heating. The 1980 output totalled 25.23 million pieces, an increase of 67.5 percent over 1979 and the 1980 profit was 1.35 million yuan, 90.8 percent more than that in 1979.

Although the growth rate of the province's industrial production has been relatively fast over the last few years, there are still quite a number of problems facing us. First, the products of some enterprises have failed to be adjusted to the needs of the market and they have become unmarketable and overstocked as a result. Second, the economic and technical targets of enterprises are relatively backward and the output value created by every 10,000 yuan of expenditure is 30 percent lower than that of Shanghai and the profit created by every 10,000 yuan expenditure is 56 percent less than that of Shanghai. Third, there has been an obvious reduction in speed of development this year compared with that of the preceding 2 years. This is mainly because the growth rate of the industry under the system of ownership by the whole people and especially heavy industry is relatively low. To continue to maintain a certain speed of development in industry and accumulate strength for further development, it is necessary for us to further conduct investigations and study and correctly assess the situation of the province's industry. With the powerful backing of the whole country and under unified state planning, we must develop our advantageous factors and overcome our disadvantageous ones, stress the grasping well of the production of raw and semiprocessed materials and the replacement and transformation of equipment, truly enhance the capability to intensively expand reproduction and at the same time pay attention to continuously raising the technical level and managerial and administrative skills.

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## DOMESTIC TRADE

### DEVELOPMENT OF INDIVIDUAL ECONOMIES IN GUANGZHOU EXPLAINED

Beijing ZHONGGUO CAIMAO BAO in Chinese 8 Sep 81 p 2

[Article by He Jingpei [0149 4842 3099]: "How Has Guangzhou Developed Individual Economies?"]

[Text] Beginning in August, 1979, the municipality of Guangzhou began restoring and developing individual economies based on nonagricultural industries in the cities and towns. Some fairly obvious results have been achieved to date. By the end of July of this year, a total of more than 16,600 people have been returned to or added to nonagricultural individual economies; this is 53.7 percent of the 1957 figure. The municipal departments concerned plan for the next step to be a further hiring of 15,000 people, a restoration to the 1957 level.

Although it has only been 2 years since the restoration and expansion of nonagricultural individual economies, and the number of people involved has not attained the previous highest level, it already plays an inestimably positive role in economic life.

First of all, it has invigorated the market, been convenient for the masses, and made up for the inadequacies of the state and collective commercial networks. Historically, there have been a relatively large number of commercial networks and businessmen in the city of Guangzhou. In 1955, there was an average of 4.5 commercial networks and 10 commercial service personnel per 100 citizens, but by the latter half of 1979, these had decreased to an average of 0.4 commercial networks and 4.4 commercial service personnel per 100 citizens, which brought inconveniences to the lives of the masses. During this restoration and expansion of individual economies, more than 10,000 individually run stands have been quickly established and this has greatly made up for the inadequacies of the state and collective commercial networks. They have basically played a very positive part in solving the "eating," "clothing" and "repair" problems of Guangzhou. The small eating establishments especially have spread all through the streets and alleys operating night and day serving whoever comes to eat. It is extremely convenient for the masses. Some traditional Guangzhou foods, such as "green sweetened bean paste," "your lordship chicken," "roast goose," "fried vermicelli," and others have made a comeback and been welcomed by customers at home and abroad.

Secondly, it has expanded social connections for securing a job and promoted social stability and solidarity. By the end of June 1981, more than 5,300 youths in the whole city were formally registered as self-employed constituting 32 percent of the



total self-employed people. In addition, there were many individually operated businesses which were registered by parents and run by the children. It is estimated that this number totals some 5,000 to 6,000 youths, which is equal to the formally registered number.

Thirdly, it has promoted improved management by state and collective enterprises as well as improving the quality of service. Take some of Guangzhou's past collective and state operated eating establishments as an example. Due to single family management and supply not meeting demand, variety in these establishments was monotonous, business hours short, and quality of service lacking. Time and again there was no improvement in the opinion of the masses. Now, since independent eating stands have begun operating, their variety is great, they have the latest products, they are economical and practical, they offer good service, and are soliciting large crowds of customers. Because of these circumstances, eating establishments where service was poor were not frequented and thus they were forced to improve management and service.

The restoration and expansion of nonagricultural individual economies in Guangzhou occurred fairly quickly. The enterprises employing youths are especially numerous. Isn't there much to be learned from these experiences?

1. The party and government should emphasize the restoration and expansion of individual economies as something to be grasped. The Guangzhou municipal party committees and the municipal government have already on two occasions organized the committee's general office's research office, the municipal finance office, and the industrial and commercial bureaus to do research. On the one hand they have used the facts to teach the cadre and masses to recognize the important significance of the development of individual economies and on the other hand they have focused on the problems which emerge in the process of work in order to make suggestions for improvement in a timely manner. The municipal government also issued special notifications requesting relevant departments to make efforts in coordination and positive support. All districts and streets also worked actively to make the state's policies and guidelines regarding youths seeking a profession and the development of individual economies known to all and to help them take root in the hearts of the people.

2. We should further liberalize ideas, broaden policies and adopt measures on all fronts to greatly support and foster the development of individual economies. For instance, in management styles, there can be single person management, whole family management, and "partnerships" can also be permitted. There must be compliance with the requirements and there will be no limits on the number of people involved. As for goods supply or raw materials, it must be clearly stipulated that individual businesses can go to state wholesale departments to lay in a stock of goods, selecting three types of goods for purchase with two types being appropriately allocated to the point of "controlling without restricting." This will also allow them to enjoy the difference between wholesale and retail prices the way the state and collective businesses do. As to prices, the freely purchased portion would be permitted to have the prices set by the market.

3. There are economic attractions. The departments concerned stipulate that only if the businesses are run legally will there be no limits on the amount of business done and the income. However, it is acceptable to earn quite a bit of money with

no fear of becoming "conspicuous." At present, the average income per person per month for individual businesses throughout the city is more than 100 yuan with the greatest being 300 yuan. For this reason, the majority of the young engaged in individual economies are relatively comfortable with their professions.

4. Effective measures should be adopted to assist those youths awaiting employment in solving the problem of whether to engage in an individual business or not. There are basically three methods for this: One is when the parents are managers of an individual business and have a definite skill and management enterprise, the youth awaiting employment is moved to learn the skills from the parents and engage in the business together with them; another is to mobilize and organize retired people with technical expertise and management experience to lead the youth to become apprentices or helpers and learn while doing; the third is for various special short classes to be operated by block or labor service companies attracting the youths to study voluntarily at their own expense to acquire the skill to engage in an independently operated business.

Although the city of Guangzhou has achieved gratifying results in the restoration and expansion of nonagricultural individual economies and giving impetus to the young seeking their own profession, some problems still exist. The most obvious one at present is that there is not a very good resolution to the problem of a system of control. At present, independent businesses are mostly controlled by neighborhood service centers and the neighborhood merely collects management fees and does very little managing. At the same time, the standard fees collected have also increased. In accordance with the stipulations of some areas, the management fees paid by different types of businesses is 1-5 percent of business. This is already very high but some neighborhoods collect 15-20 percent and others also add in "fees for occupying the street," "health fees," "garbage fees," and various other fees. There are a multitude of things which influence the activism of those independent businessmen.

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## DOMESTIC TRADE

### JOURNAL ON AGRICULTURAL, TRADE MARKET

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[Article by Yu Shamu (0060 3097 1606): "How Did Shenyang Municipality's Agricultural and Trade Market Begin to Flourish?"]

[Text] In the well-known industrial city of Shenyang, the largest municipality in the northeastern part of our country, around 130 prosperous agricultural and trade markets are found all over the city, not only around the lively downtown area but also in the suburban parts of the city. Under the spacious plastic roofing of the markets and among their well-laid-out piles of goods, the customers bustling about select their purchases as they please not only from products of Liaoning Province, such as the principle food grains, miscellaneous grains, edible oil, livestock, aquatic products, eggs, vegetable, dried and fresh fruits, and other daily-use products, as well as other agricultural and sideline products, and special local products, but also from agricultural and sideline and other special local products from 20 other provinces and districts, such as yellow tobacco and sunflower seeds from Jilin Province, soybean, and edible fungus from Heilongjiang, soft-shelled turtle from Sichuan and Anhui Provinces, fresh fish from Zhejiang Province and related areas, and other products. There are about 200 commodities on sale in these agricultural and trade markets of varying sizes everyday. The total daily transactions amount to more than 300,000 yuan. Then how did these agricultural and trade markets begin to flourish? Recently, we visited the departments concerned of Shenyang with this question in mind and found out its secret.

#### A Regulatory But Flexible Policy

The agricultural and trade markets of Shenyang Municipality, which enliven the urban and rural economy, belong to one form of the traditional market of our country just as the rural fair trade markets all over the country do. Unfortunately, since 1962, especially during the 10 years of the "Cultural Revolution," these markets have been regarded as "soil for capitalist restoration" and have been restricted and eliminated. As a result, the channel of commodity circulation has become unitary. This impedes the exchange of commodity supplies between the urban and rural areas and causes the spread of unhealthy practices in the supply and sales of commodities and resentment among the broad masses of the people. The Shenyang Municipal Party Committee has studied the historical experiences

and lessons and has noted the fact that the rural fair trade markets of the urban and rural areas are a necessary supplement to the socialist economy at the present stage, as such markets enliven the economy, make things convenient for the people, improve the supply of goods, and render services to the people. Consequently, they are a form of market which complies with the needs of the people. For this reason, in September 1978 they reopened the agricultural and sideline product markets within the city as well as in the suburban parts of the city.

For 3 years, the Municipal Party Committee, the municipal government and the departments concerned have done an immense amount of work to enliven the agricultural and trade markets of the municipality. Experimental points were first set up in Daxi, Beihang, and other parts of the city for the purpose of getting experience and then restoring one after the other the traditional rural fair trade markets of the various districts as well as opening up new trade markets so that the agricultural trade could be restored and developed in the whole city. From 1979 onward, planning and construction work for these markets was undertaken as an integral part of the general planning for construction for the city as a whole and in close connection with the improvement of the appearance of the city. In the drawing up of plans for the construction of these marketplaces, special attention was paid to simplicity and thrift, economy and practicality, convenience and good appearance, uniqueness of style, avoidance of the over-size and the seeking of western aspects. Generally speaking, in the case of the large markets, the commodities are classified according to the various trades. In this way, they can better meet the needs of specialized management, improve orderliness in the markets, provide service facilities and so on as well as varying designs. For the construction of the marketplaces alone, more than 120,000 yuan was spent in 1980, of which 28,000 yuan was government funds and the rest was either low-interest bank loans or contributions from the state and collective entities taking part in the markets. In order to stabilize the city market economy and the prices, the market management departments are taking the initiative to attract and admit various economic elements into the markets. They have also cleared up the various circulation channels, got into contact with the places of production, priority producers, specialized producers, self-marketing industrial units and commercial departments by providing them with market information, inviting them for visits, sending out people to contact them and other methods to open up new sources of supply and to market surplus products. There are some 990 purchasing agents working for these markets. Concerning the long and short-distance peddling trade undertaken by individuals, which had once been regarded as "repeddling" and banned, new regulations were promulgated before 1979, legalizing this trade and declaring it nonexploitative behavior as long as it was within the capability of an individual, requiring only a small amount of capital and netting small profits. Furthermore, for the convenience of inspecting the prices, price tags are required for all goods in the market, displaying not only the exact price, but also the price range of the previous day as a reference price. The state-run retail enterprises are advised to sell their products at lower prices to stabilize the price levels. To facilitate the livelihood and the business of the traders, integrated markets have been set up step-by-step with agricultural and sideline products as the staple commodities, along with light industry and textile products and secondhand goods as well as commercial and snack shop services. Specialized markets have also been set up in localities where the supply of a certain commodity converges. The municipality has decided to construct 19 large specialized and integrated



markets and expand eight such markets. At present 10 new specialized markets are in operation. For the sake of safeguarding the prosperity and orderliness of the markets, the Municipal Industrial and Commercial Administrative Bureau, the Municipal Security Bureau, the Municipal Public Health Bureau, the Municipal Animal Husbandry Bureau, the Municipal Food Corporation and other organizations have formulated respectively the following "small legislative measures": "a number of rules concerning market control," public health regulations on food, measures for disease inspection for meat for sale, and so on. With the development of the agricultural and trade markets, the management of the market administrative departments has been constantly strengthened.

#### A Lively But Not Disorderly Administration

Only 2 or 3 years ago, at the mention of free markets, people had the following disorderly picture in their minds: mixed and disorderly vending stalls, noisy and boisterous hawking, bickering over giving a short measure, dirt and filth all over the place, and the chasing away of the "law violators" by the market administrative personnel. However, all these visions are totally changed when you visit the Shenyang agricultural and trade markets now. Instead, you will see orderliness everywhere, trading carried on without rush, plentiful goods for sale, neat and clean surroundings, and very pleasant market administrative personnel wearing dark-green woolen badges to help the traders. This new sight certainly makes people realize that the management system has changed.

The comrades of the Municipal Industrial and Commercial Administrative Bureau told us that the reason why their administrative method has been totally changed is that the administrative personnel's feelings for and their relationships with the traders have fundamentally changed. In the past, they regarded the peasants selling their own produce and the traders as targets for detention. Today they have finally come to an understanding of the real story. These people are the targets for services. Undoubtedly, a change from "detention" to "service" is indeed a change in substance. During our visit to the agricultural and trade markets, we found that the administrative personnel at all levels are generally imbued with the guiding ideology of "catering to the prosperity of the agricultural and trade markets." On the basis of the principle of regulation but not strangulation, and liveliness but not disorder, they closely link propaganda education, economic management and administrative control. While enlivening the market, they unrelentingly crack down on speculation, do their inspection work closely, and seriously deal with the misbehavior in connection with market administration, public health, security, orderliness and so on in order to ensure the prosperous and healthy development of the market operation. The specific measures they take in strengthening the overall administration of the markets can be grouped into the following three aspects:

(1) Gain good control over the traders and the commodities on sale. Give protection to lawful transactions and ban the unlawful activities. Make clear which people and which commodities are allowed to enter the market and take part in transactions, and the proper way to carry on the transactions. This is the foundation of the administration of the markets. For this purpose, "eight approvals" and "four disapprovals" are stipulated in explicit terms. The eight approvals are: lawful admittance to the market for commune members, production brigades,



livestock farms, farms, commercial, peddling and collective units and urban dwellers as well as the bringing into the market of lawful commodities to be sold in compliance with the regulations specified by the state policies. The four disapprovals are: teaming up to form a gang, colluding inside as well as outside the markets, deceiving the buyers and monopolizing the market, hoarding for resale, and engaging in speculation and profiteering; shipping on consignment by boat and land vehicles, reselling and repurchasing in large volumes on wholesale terms to reap huge profits; giving up one's profession to engage in the peddling trade the year round; and adulterating and giving short measures of goods with the aim of deceiving people. Speculation, profiteering, and related activities are to be strictly banned.

As for the industrial products, secondhand goods, livestock, meat, poultry and other products which are permitted in the market, several rules have been promulgated by the Municipal Industrial and Commercial Administrative Bureau in coordination with the Municipal Security Bureau, the Municipal Livestock and Foodstuffs Bureau and some other departments concerned. For example, the sale of dangerous products, superstitious articles, gold, silver, articles that are harmful to social morality and customs and licensed goods such as pharmaceuticals, tobacco, wine and so on is prohibited. It is stipulated that any collective entity or individual must produce the residence booklet and a certificate endorsed by the department concerned when various daily-use articles or means of production are brought to the market for sale. The sale of watches, bicycles, other durable consumer's goods, industrial implements, supplies as well as other products must be registered with the administrative department of the market and put on record. A letter of introduction from the authority higher than the production brigade level and a certificate issued by a veterinary station must be produced when cattle and cattle meat are put up for sale. All vendors' stands (stalls or both) as well as peddlers must possess a business license. All meat and poultry for sale must be examined by the disease inspection station and duly stamped. The sale of any rotten or deteriorating food or beverages that are harmful to health is prohibited.

(2) Ensure good work in the administration of the markets and in maintaining security, good order, services, public health standards and so on. In order to facilitate administration work, the market is classified in terms of trades, and business is transacted by categories. The personnel in charge of the markets are divided into two groups, the administration personnel and the service personnel, both under the Municipal Industrial and Commercial Administrative Bureau. They undertake specific duties in the administrative offices and work groups of the markets respectively. Responsibilities of personnel of the Municipal Industrial and Commercial Administrative Bureau, the security personnel on duty, the service and public health administrative personnel are divided by districts and sections.

In order to maintain security and good order in the markets, the police stations which have markets in their jurisdictions assign specific personnel to the medium- and small-sized markets respectively. Security and on-duty offices or substations are attached to the large markets to support administrative security work. In addition, appropriate members are selected from the administrative and service personnel of the markets to form security groups of a mass nature (also known as public security committees or groups) to assist the government security departments

in ensuring security. There are five main tasks for the administrative security work of the markets: formulating security regulations, publicizing the legal system, carrying out routine inspections, solving the outstanding problems of the various market and ensuring good intelligence and control as well as other tasks.

Concerning the cleaning of the markets, three methods have been adopted respectively: to have specific members of the service personnel of the markets responsible for the cleaning; to delegate the responsibility to the environmental cleaning departments; and to give the job along with a reward to the neighborhood.

Besides, for the benefit of the administration of the markets as well as that of the broad masses, the market administrative offices usually either take as their own business or organize certain departments in setting up inns, restaurants, snack bars, vending trucks, drinking stands, check rooms, parking lots for bicycles, as well as providing standard scales, boxes for examining eggs, pots for keeping finish, cages for keeping hens and ducks, chopping blocks for cutting meat, funnels for draining oil, sewing kits, strings for gunnysacks, packing paper, first-aid-kits and so on, which number more than 20 services.

(3) Strengthen the training of the service and administrative personnel for the markets. Strengthening the administrative personnel of the markets and enhancing the quality of their work are keys to good administration of the markets. Last year, without making additions to the government-authorized personnel level, the Shenyang Municipality started to select nearly 200 youths awaiting employment and organized a service team for the markets. They have been assigned to the various markets to take part in the administrative and service work. The service team has the nature of a collective ownership organization, having its own independent accounting system and taking full responsibility for profits and losses. Its income comprises fees for market services, fees for market administration (only a part of it) as well as the income from acting as a purchase and sales agent for the customers. The wage standard and other benefits of the team members are based on those of the staff of the agricultural and trade markets as well as those of the collective entities. In order to enhance the understanding of policy and the professional ability, short training courses have been designed for the administrative and service staff to take on a rotational basis. They also exchange their experiences frequently.

For the purpose of giving full play to the enthusiasm of the administrative and service staff of the agricultural and trading markets, the Municipal Industrial and Commercial Administrative Bureau has formulated a tentative unified code for the system of personal responsibility, which stipulates the responsibility of the working staff, the criteria and methods for evaluating their performance, and means of giving bonuses and awards.

As shown by the experiences of Shenyang Municipality, the key to "regulation without suffocation and liveliness without disorder" lies in the presence of the proper policy and administrative work. Once the personnel can perform the administrative work properly, the agricultural and trade markets are bound to prosper healthily and duly fulfill their functions.

## FOREIGN TRADE

### FOREIGN CAPITAL UTILIZATION IN BEIJING'S ECONOMIC DEVELOPMENT

Beijing BEIJING RIBAO in Chinese 13 Oct 81 p 1

[Article by correspondents Feng Xiuying [7458 4423 5391] and Yan Xing [7051 2502]: "Full Utilization of Foreign Funds for Development of Economic Construction by Departments Under the Municipal Economic Commission--66 Production Lines Imported or Transformed through Use of Foreign Funds, and 41 of Them Are in Operation"]

[Text] Some production units under the Beijing Municipal Economic Commission have utilized through various channels foreign funds for the development of economic construction in the capital, with fairly great success.

Since the adoption of an open door economic policy at the 3D Plenary Session of the 11th Party Central Committee, some enterprises under the municipal economic commission, with the assistance of the foreign trade departments and the Beijing General Economic Construction Company, have adopted the methods of compensatory trade and processing materials and assembling parts supplied by foreign customers, and signed more than 300 economic contracts on the use of foreign funds to import advanced equipment and technology. The increase of productive capacity in these enterprises has rapidly increased their outputs. In the last 2 years, the units under the municipal economic commission have also used foreign funds to import or transform 66 production lines; 41 of them are now in operation. The annual assembling capacity of TV sets is now increased to 450,000 for 12-inch black-and-white sets and 200,000 for color sets. The assembling capacity of tape recorders is now 590,000 sets a year. The production of eye glass lenses is increased to 10 million pieces; that of nylon zippers, 150,000 meters; and that of alkyd resin, 4,500 tons a year. Through the processing of materials supplied by foreign customers, the Municipal Garments Industry Company has used the proceeds from this source to purchase some high efficiency foreign industrial sewing machines and imported or transformed 12 garment production lines. Each year, this company is capable of producing more than 10 million additional garments.

The importation of advanced equipment, advanced technology, and advanced experiences of scientific management has promoted the improvement of enterprise management. The Dongfeng Television Plant of Beijing had 251 workers assembling 9-inch black-and-white TV sets, and this team's output was only 200 sets. After importing an assembly line for 12-inch black-and-white TV sets and adopting foreign scientific methods of management, the output of a team of 131 persons has been increased to 600 sets.

The use of foreign funds for importing advanced equipment and advanced technology has brought about large-scale increases in exported commodities. Because of the judicious use of foreign funds for the expansion of productive capacity, the output for export has increased. At present, the exported products of Beijing has reached 131 countries and regions.

Processing materials supplied by foreign customers and compensatory trade sometimes call for high labor intensity and can therefore provide more jobs to unemployed youths. In the last 2 years, more than 6,000 youths were given jobs in the garment trade; and 1,000 of them were accommodated in the production of envelopes to be used on special occasions by foreign traders.

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## FOREIGN TRADE

### SHANGHAI'S ANNUAL EXPORT PLAN FULFILLED AHEAD OF SCHEDULE

Shanghai WENHUI BAO in Chinese 17 Oct 81 p 1

[Article by unidentified correspondent: "Shanghai's Export Plan for Current Year Fulfilled Ahead of Schedule With Improved Product Quality, Increased Designs and Varieties and More Attractive Packing; Ratio of Industrial Goods Continues To Increase With Corresponding Decrease of Agricultural Sideline Products in Export Trade"]

[Text] Shanghai, the largest foreign trade port in China, fulfilled the state export plan for 1981 2 and 1/2 months ahead of schedule. By 15 October, according to the statistics of the Shanghai Municipal General Foreign Trade Company, 100.15 percent of the foreign exchange earning quota through exported goods was fulfilled.

Among the 13 import-export branch companies and two other branch companies acting mainly as agents for the import and export of industrial goods, all operating under the Municipal General Import-Export plan. The export of edible oil, mineral metals and chemical-industrial and handicraft products was more than 10 percent above the annual plan; the export plans for silk, textile products, garments, animal products by the branch companies were also overfulfilled. The export of native products, light industrial products, foodstuff and machinery by the branch companies also exceeded the average speeds as stipulated in the plans.

Since the beginning of this year, there have been improved quality, more designs and varieties, and more attractive packings for the main exported products in Shanghai. Along with the continued development of industrial exports, the product mix of exports from Shanghai has changed, as shown by the continued increase of industrial products and decrease of agricultural sideline products.

Shanghai's exports, according to the annual plan, have made fairly good progress. Besides relying on the efforts of the production and procurement departments for the availability of products for export, according to state plans, Shanghai has also imported urgently needed raw auxiliary materials to be processed into finished products for export outside the state plans. It is anticipated that the value of exported goods will be increased by more than 1 billion yuan this year. The value of exported products to be supplied by the outlying counties to Shanghai is estimated to be more than 500 million yuan, an increase of 20 percent over last year. The products are of fairly solid quality and are produced in small batches. There are many varieties and their delivery is prompt. Therefore, these products



are playing a large role in promoting the export trade. At the same time, great efforts are being made to promote compensatory trade, and the processing of materials and assembling of parts supplied by foreign customers, in addition to importing advanced technology and increasing the export of easily marketable goods. Its clientele has expanded from Hong Kong, Macao and Japan to 17 countries and regions, including Australia, and the product mix has also expanded from those of high labor intensity to light industrial, textile, electronic and chemical-industrial products and instruments and meters.

To stimulate foreign trade, the foreign trade departments of Shanghai have stepped up their investigations and study in the conditions of the world market and adopted the method of "inviting in and going out" in organizing transactions. In the first 9 months of this year, the Municipal General Company of Foreign Trade, in collaboration with the relevant special general companies in Beijing, have dispatched 197 foreign trade groups of more than 370 persons abroad to hold exhibition and sales fairs and international fairs. At the same time, more than 14,300 foreign traders from various countries and regions have been invited here to discuss business and to attend meetings held in Shanghai for the sale of downy products, leather shoes, leather goods and silk. Many large transactions were completed at these meetings.

The port administration and communication-transportation departments in the municipality have strongly supported the export trade by speeding up the transportation of exported goods. In so-doing, they have also made important contributions to the fulfillment of the export plan ahead of schedule.

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## GENERAL

### VILLAGE TRADE FAIRS, RURAL ECONOMIES DISCUSSED

Beijing ZHONGGUO CAIMAO BAO in Chinese 22 Sep 81 p 3

[Article by Sun Deshan [1327 1795 1472]: "Active Village Trade Fairs and Flourishing Rural Economies"]

[Text] Since the Third Plenary Session of the party, all localities are implementing rural economic policies, developing agricultural production, and achieving great results. In areas of circulation, rural market trade is beginning to develop throughout the country. The rural economies are flourishing daily. However, in some areas a definite resistance to the development of rural markets still exists. They are not being allowed to play their full role. For this reason it is worth probing into the nature, use, and management problems of market trade.

#### I. The Nature of Rural Market Trade

Rural market trade is one channel for the circulation of commodities. The origin of our rural commodity trade markets is very old. In feudal societies and semifeudal semicolonial societies, the country trade fair was a vassal of feudal and capitalist economies. After the establishment of the People's Republic of China, revisions in the old country fairs were made and new, village trade fairs were established. In this way, the nature of the village fair underwent some basic changes. In a unified socialist market and with the leadership of state trade, it becomes a place where rural villages meet each others needs and surpluses and shortages are adjusted. It takes on a socialist nature and is basically different from the capitalist, free market. Furthermore, it "is a necessary supplementary sector of socialist trade."

In a unified socialist market, state businesses, as a means of circulation, hold a leading position and supply/marketing cooperatives, as a means of circulation, are powerful assistants to state business. Village trade fairs as a means of circulation is a necessary supplement to state businesses and supply/marketing cooperatives. Practical experience has shown that with only state businesses and the supply and marketing cooperatives, it is impossible to bring together all of the myriad agricultural and sideline productions. In the product circulation area, village trade fairs are an indispensable means of circulation.

#### II. Effects of Rural Village Fair Trade

Current phases of village trade fairs are being implemented under the unified leadership and control of the state. It plays a promotional role in the development of collective and individual economic diversification.

Since the founding of the PRC, particularly in the past few years, the role of brisk rural village trade fairs in the flourishing rural economy has been extremely obvious. According to statistics on over 200 village fairs held by the relevant departments, agricultural and sideline products sold by peasants at village fairs in 1980, topped more than 570 million yuan, an increase of 37 percent over 1979. The prices of rural village fair goods are generally stable and in goods where there is a balance between supply and demand there is a downward trend. In a comparison of 1980 with 1979, the difference between market price and list price decreased by 3 percent. There was a price decrease in 10 major commodities: millet, wheat, corn, edible vegetable oils, pork, cabbage, and piglets. This shows that as agricultural production develops, agricultural products increase and market prices can stabilize and decrease.

In 1980, traditional morning markets, night markets, mountain fairs, mule fairs, and village fairs in minority areas resumed in many regions. These markets supply each other's needs, satisfying the different desires of all the areas. They play an active part in promoting the gradually prospering rural economy. This illustrates that: aspects of state businesses (including the supply/marketing cooperatives) and single family operated businesses have changed; methods of operation have multiplied; and the means of circulating goods have also multiplied. Rural markets throughout the country have, in sweeping out the dull depressing atmosphere of the past several years, a refreshed atmosphere.

### III. Opinions on Expanding Rural Village Trade Fairs

The following opinions are proposed to further enliven the rural village trade fairs and to promote prosperity of rural economies.

1. Increase Control. In expanding rural village trade fairs, first of all, the influence of "leftist" thought must be purged while grasping the basic points of a socialist society and persisting in following socialist paths and directions. Many regions have increased control of village trade fairs and have played a definite role in bringing prosperity to rural economies. However, other regions have let the village trade fairs drift and this has had a negative effect. For this reason, it is necessary to increase control of village trade fairs. (1) All categories of agricultural sideline production must be completed on time in the quantity and quality as set down by the state. (2) No persons or units will be allowed to illegally purchase agricultural sideline products from state stores of supply/marketing cooperative retail stores for resale at increased prices. Speculation or deception practiced to dominate the market will not be allowed. Hoarding to drive up prices will not be allowed. (3) Goods trafficking by communes and brigades should be ratified by the local industrial and commercial administrative control department. Surplus agricultural sideline products, except for one category, may be transported for sale to nearby communes and brigades after sales obligations to the state and contracts are fulfilled. (4) Cooperative shops, cooperative teams, and documented individual peddlers will be permitted, within a stipulated management scope, to engage in transporting agricultural sideline products for sale between city and rural areas. In summation, effort should be made to see that such trade is "controlled, but not stifled; enlivened, but not chaotic." Full play should be given to its positive effects while the negative effects should be limited allowing it to serve even better in enlivening agricultural trade markets and bringing prosperity to the rural economies.

2. Insure Competition. Practical experience has shown that the development of competition between enterprises, with the principle prerequisites of a persistence in the socialist way and a persistence in a planned economy, has played a motivating part in the improvement of product quality, and in conserving human, financial, and material resources. In order to support production, promote circulation of goods, and make things convenient for the people; allow some competition in rural markets. The advantages are numerous and the disadvantages few. Through competition, the revision of management control in commerce can be promoted, and an increase in commodities, moderate prices for fine goods, and stable prices can be promoted. In a socialist society, if there is competition protected by leadership then social progress can be propelled forward. Of course, breaking away from free competition led by state commerce is harmful.

3. Permit Long Distance Transport, Resolutely Ban Speculation, Profiteering and Activities Which Benefit Individuals at the Expense of the Public. According to government regulation, rural communes, brigades, and collectives may, after satisfying state purchase obligations and fulfilling negotiated purchase contracts, transport for sale two or three categories of surplus agricultural sideline products which the state has not purchased as long as the state purchase obligation is not affected. Commune members, with the agreement of the production brigade can, using, their own power (hand-carry, backpack, pull, or bicycle), engage in the transport of agricultural sideline products to permissible cities. The purchase of large-scale transportation tools such as automobiles, tractors, or motorboats by private individuals for use in moving goods for sale is not permitted. The sale of their own agricultural sideline products by individual brigades or commune members is not considered trafficking in goods. Goods trafficking is purchasing at point A, transporting those goods and selling them at point B. Transportation and sale is transporting one's own products to another place for sale. These three concepts must be made clear. Our policies treat them differently. The transportation and sale of self-produced goods should be protected. Goods trafficking, whether long or short distance, should be restricted. Exceeding permissible limits should be controlled and not allowed to drift along. In hard to reach rural villages and mountain areas, since the state businesses and supply/marketing cooperatives are not sufficiently strong, some items may be transported over long distances for sale in order to enliven the rural economies of these areas; some items however, are restricted from long distance transport. This is to say that there are no necessary limits, in the transportation and sale of goods, whether legitimate or illegitimate, based on long or short distances, but they should be in conformity with the transportation and sale of agricultural sideline goods within the scope of the standard policies and regulations. If these activities are beneficial to the state, the producers, and the consumers, then they can all be considered legitimate.

At present, rural economic conditions are good. However, there are still some lawless elements bent solely on profit-taking. These people must be treated in accordance with the State Council's instructions on cracking down on speculation, profiteering, and smuggling by tightening market controls and resolutely cracking down. Any unit or individual engaging in speculation or profiteering, in addition to forfeiting or not receiving their property as per government regulation, shall be turned over to judicial organs for punishment under the law.

4. In the Circulation Areas, Persist in Guidelines Which Funnel Goods to the Areas, and Not Adopt Methods Which Cut Them Off. Although current means of

circulation are more numerous than in the past, and marketplaces for village trade fairs have increased greatly, there are still a lot of places where there are obstructions, and there is still a great deal of work to do in clearing up misunderstandings. As for the portions which appear to be in disarray, great effort is required to disseminate policies, educate the masses, and adopt effective leading measures to bring things around to the correct way. It can be said that without working to open channels there can be no free flow of goods or letting things serve their proper purpose. In the future, in the realm of circulation and in the development of village trade fairs, our guiding ideology should be such that we open up channels, not stop them up or cut them off. We must further enliven village trade fairs and bring prosperity to the rural economies.

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## GENERAL

### REORGANIZATION OF ENTERPRISES, TECHNICAL TRANSFORMATION DISCUSSED

Jinan DAZHONG RIBAO in Chinese 5 Nov 81 p 3

[Article by Liu Yaohua [0491 5069 5478]: "Effectively Reorganize the Enterprises and Transform the Technology"]

[Text] Along with the intensive and extensive implementation of the policy of readjustment, restructuring, consolidation and improvement of the national economy, now a very important task confronting us is how effectively to reorganize the enterprises and transform the technology in order to raise the organizational structure of industrial enterprises and the technology of production to a new level. These jobs will not only enable us to maintain a certain growth rate for industrial production, but also create the necessary conditions for the smooth progress of the four modernizations. We must recognize their importance in ideology and practice them well.

The so-called reorganization of enterprises means their reorganization and integration according to the principle of specialization and coordination as well as economic logic as a means of solving the problem of "large and all-inclusive" or "small and all-inclusive" enterprises, and the problem of enterprises being kept separate from one another; and to set up a rational organization structure consistent with the internal organization of industrial production and with the requirements of large-scale socialized production in order to promote productive forces. Marx held that socialism is built on a foundation of highly socialized production and a system of public ownership of the means of production. This system was established in our country long ago and has been constantly improved in practice. However, it must be admitted that the degree of socialized production is still insufficient, mainly because specialization and coordination through the division of work in production has not been well organized. Without specialized production, there will be no developed socialized production and the building of socialism will also be difficult. Therefore, effective industrial reorganization is an important task in implementing the policy of readjustment as well as a major task in consolidation and development of the socialist system.

The so-called technical transformation means the gradual shifting of the existing enterprises to a modernized technical foundation through the constant renovation of production techniques and regular replacement of equipment, and the maximum effort to transform and arm the entire industry and various departments of the

national economy with the fruits of scientific and technological achievements so as to generate more powerful productive forces. These are the basic requirements in developing industry's leading role and in accelerating socialist modernization. Industry produces not only consumer goods for people, but also the tools of labor. The level of technology and the quality of the tools of labor produced by industry for various sectors of the national economy have a direct bearing on the speed of their development. Therefore, technical transformation for industrial enterprises is a question of not only the amount of products supplied, but also, more important still, the grade of equipment used to equip the various sectors. We must set up and develop a modernized socialist industrial technological foundation before we can produce advanced tools of labor and use them to equip the various sectors of the national economy, to promote the speedy development of the entire national economy, and to meet the requirements of people's livelihood and the national construction. In other words, "only through the continued increase and improvement in socialist production on a highly technical foundation" can we "meet the constantly increasing material and cultural needs of the entire society to the maximum extent." Technical transformation is highly significant and must be carried out as determined by the basic socialist economic laws.

During the 32 years of socialist construction since the founding of the People's Republic, many plants have been set up in various localities. These plants are serving as strategic positions and reliable bases for our march toward and goal of the four modernizations. Because of the irrational organization structure of the industrial enterprises in the past, there have been many problems with duplicated constructions, dispersal of forces, "large and all-inclusive" and "small and all-inclusive" units, low-level management and poor economic results. As a result, the vast potential of enterprises cannot be fully tapped. If we want to readjust and reorganize our existing enterprises, we must act in accordance with the "eight-character" policy; concentrate our efforts on the production of urgently needed consumer goods and other brand-name and high-quality goods. We must use the key cities and trades as the bases regardless of the demarcations between different sectors and the systems of ownership; work out a unified plan for a rational division of work among the "over-fed" and the "under-fed" enterprises or the enterprises producing similar products or different products with similar technology, according to the nature of products, the accessory or spare parts used, or the work process and technology required. By this means, we will be able to change the orientation of production and the product mix among some enterprises, reduce the productive capacity for products already in excessive supply, and increase the production of goods in short supply. The organization can take the forms of specialized companies, general plants, or integrated economic units in various forms. It is also possible to set up comparatively stable relations of cooperation through economic contracts. By these means, we will be able to organize the productive capacity of the existing enterprises in a more scientific and rational way, and change the backward modes of production, such as those used in the "large and all-inclusive" and "small and all-inclusive" units, into that of socialized production through specialization and coordination.

At the same time, we should vigorously carry out technical innovation and transformation centering around the needs of production development. As we all know, the level of technology has a direct effect on the speed of production development,

and the basic way to raise this level for production is to renovate the equipment and transform the technology in the existing enterprises, or to replace the old equipment--which is technically backward, physically unfit, and economically impracticable--with advanced and economical equipment. Marx pointed out: "The instruments of labor are largely modified all the time by the progress of industry. Hence they are not replaced in their original, but in their modified form." Again, he said: "The machinery must be cleaned from time to time. It is a question here of additional labor without which the machinery becomes useless." ("Collected Works of Marx and Engels" Vol 24, p 190, 194) These remarks made by the guru of revolution, on the one hand, showed that equipment replacement and technical transformation are required for the development of production and the continued progress of science and technology (or for the progress of society); and, on the other hand, served as an explicit reminder that we cannot overlook the maintenance and upkeep of the existing equipment. If we concentrate all or most of our resources on capital construction and try every possible way to start new projects instead of making use of the available foundation, we will not be able to bring into play the resources which we already possess, with reduced, instead of expanded, reproduction as the result. Even though the productive capacity may be increased, the old enterprises which use rundown plant buildings, out-dated equipment and backward technology, may eventually be eliminated so that finally, whatever we may gain cannot compensate our loss. While carrying out normal production, we must transform and renovate the old buildings and old equipment of the existing enterprises in a planned and systematic way and tap the potential of these enterprises to the maximum extent in order that our efforts will be doubly rewarded.

During the past 2 years, practical measures have been introduced in Jinan to deal with the problems left over from the past. First, some enterprises which were seriously operating under capacity and had little prospect of future development were merged or retooled to produce popular light and textile consumer goods. At the same time, attention was paid to the weak links in production, and necessary arrangements are being made for tapping potential and renovating and transforming the equipment so that the enterprises concerned will have the necessary support in making effective use of their industrial foundation for the development of their resources. In more than 2 years, 111 enterprises in the municipality were merged and retooled, while 253 others were integrated into 18 companies or general plants and 57 integrated economic units in various forms. This year, arrangements have been made for an investment of 91.38 million yuan in 151 projects for tapping the potential and renovating and transforming the equipment. By the end of August, 33 of these projects have been completed and commissioned, and it is anticipated that a total of 105 projects will be completed within this year. After 1 year's operation, these projects will help increase state revenues by 97.34 million yuan. Thus in the same year, the investment can be more than recovered. From this, we can see that while industry is being reorganized, equipment renovation and technical transformation among the existing enterprises is a practical step in "expanded reproduction through intensiveness." This type of expanded reproduction required less investment but actually yields quick results, and will help in saving time by accelerating the modernization of our country. It is entirely consistent with the way, proposed by the central government, which requires no heavy expenditures and high accumulations, but produces good economic results.

Practice has proved that enterprise reorganization and technical transformation are mutually supplementary and closely related. Their common goal is to resolve the sharp contradictions that may adversely affect the modernizations and high-level development of our production, or, in other words, to strengthen the weak links that may handicap the rational organization of production and the high-speed development of production by tapping the potential of the enterprises. If the enterprises are not reorganized in accordance with the principles of specialization and coordination or rational economics; and if the problem of having too many factories carrying out small-scale production, separating regions and departments from one another, and the existence of "large and all-inclusive" and "small and all-inclusive" units, are not solved, it will be impossible for us to organize and realize large-scale socialized production and extensively to popularize the use of advanced technology and equipment. On the contrary, if we are only concerned with the reorganization of enterprises and pay no attention to technical transformation, even the enterprises already engaged in specialized production according to the division of work cannot raise their productivity. Then the strong points of specialized production cannot be brought into play, and the fruits of enterprise reorganization cannot be consolidated. Specialization and coordination is the natural trend of development for modernized industry, as well as the objective requirement of the development of modern science and technology. New high-efficiency and high-level technology can be used to good advantage in mass production through specialization and coordination. The more highly developed are specialization and coordination, the more socialized will be production and the more modernized will be science and technology. This is the objective law of the development of productive forces. We must make every effort to study and master this law and use it to guide enterprise reorganization and technical transformation.

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